



2018 Comprehensive Annual Financial Report



**For Fiscal Years Ending
June 30, 2018 and June 30, 2017**

**Hilton Head Public Service District
Hilton Head Island, South Carolina**

Hilton Head Public Service District

Comprehensive Annual Financial Report

**For Fiscal Years Ending
June 30, 2018 and June 30, 2017**

Prepared by:
Finance Department

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¹ SCRS is an abbreviation for South Carolina Retirement System

² NPL is an abbreviation for Net Pension Liability

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On the cover: Hilton Head PSD Recycled Water Plant Operator Daniel Schrock power washes one of the clarifier tanks at our Recycled Water Plant on Oak Park Drive on Hilton Head Island. The PSD annually recycles about 1 billion gallons of highly-treated wastewater into beneficial recycled water that is then sold for golf course irrigation or used to nourish wetland habitats on the island.

INTRODUCTION



PSD Water Treatment Technician Tim Ryan takes water quality samples at our Ashmore Ground Level Storage Facility off Mathews Drive on Hilton Head Island. It takes dedicated, highly-trained and licensed technicians like Mr. Ryan to ensure a safe, high-quality water supply 24 hours a day, 365 days a year.

Board of Commissioners

Hilton Head No.1 Public Service District (PSD) is governed by a seven-member Board of Commissioners. Commissioners are elected by registered voters of the District during general elections. Commissioners serve four-year terms and represent four different voting districts within the PSD service area.

The Commission establishes policies for the PSD and employs the General Manager. The Commission reviews and adopts the utility's annual operating budget and conducts an annual Cost of Service Analysis in order to determine the utility's consumption rates and user fees.

The Commission normally meets on the fourth Tuesday of each month in the PSD Community Room at 21 Oak Park Drive off Mathews Drive on Hilton Head Island. Public comment is welcome at all Commission meetings.

The 2018 Hilton Head Public Service District Commission



W. Robert "Bob" Manne, Chair, District 4
Current Term: 2016-2020
Chairman, Community & Personnel Relations Committee
Long Range Water Supply Committee



Robert "Bob" Gentzler, Vice Chair, District 3
Current Term: 2014-2018
Chairman, Planning & Operations Committee



Gary Kratz, Treasurer, District 4
Current Term: 2016-2020
Finance Committee
Long Range Water Supply Committee



David McCoy, Secretary, District 2
Current Term: 2016-2020
Chairman, Finance Committee



Frank Drehwing, District 4
Current Term: 2014-2018
Chairman, Long-Range Water Supply Committee
Community & Personnel Relations Committee



Herbert Ford, District 1
Current Term: 2014-2018
Planning & Operations Committee
Finance Committee



Patti Soltys, District 3
Current Term: 2016-2020
Planning & Operations Committee
Community & Personnel Relations Committee

HILTON HEAD PUBLIC SERVICE DISTRICT

Vision & Mission Statement

Adopted December 12, 2017

Vision Statement

Our vision is to be a state of the art water and sewer public utility, held as a model of excellence.

Mission Statement

Hilton Head Public Service District's mission is to:

- A. Provide high quality drinking water, wastewater treatment and recycled water services to present and future customers;
- B. Deliver those services in a cost-effective, equitable, sustainable and timely manner;
- C. Maintain sensitivity to the water and recycled water needs of the community;
- D. Contribute to the improvement of public health and the environment; and
- E. Serve as a platform for economic development.

Strategic Goals

The PSD Commission holds an annual Strategic Planning Session and conducts ongoing strategic planning activities throughout the year. Each Strategic Goal is accompanied by specific directives and staff work plan items. The directives and staff work plan also are updated annually. Below are the current Strategic Goals for the PSD as adopted by the PSD Commission.

Hilton Head PSD Strategic Goals

Adopted December 12, 2017

Goal No. 1 – Water Services: Meet all of our customers’ water supply needs with the highest quality water possible in a cost-effective manner.

Goal No. 2 – Recycled Water Services: Provide for all of the District’s wastewater collection, treatment and recycled water distribution services in a cost-effective manner while enhancing and protecting the Island’s environment.

Goal No. 3 – Environmental and Sustainability: Operate in a sustainable manner with high regard for protecting and improving the environment.

Goal No. 4 – Customer Satisfaction: Direct all activities to achieve a consistently high level of customer satisfaction.

Goal No. 5 – Financial Responsibility: Conduct all District activity in a fiscally responsible manner.

Goal No. 6 – Organizational Excellence and Leadership: Achieve organizational excellence and leadership.

Goal No. 7 – Asset Management: Acquire, maintain, protect and secure the District’s property, databases, plant and equipment assets (investment in the future).

Goal No. 8 – External Relations: Develop, expand and leverage the District’s positive relationships with external organizations, utilities and governments.

COMMISSIONERS

Bob Manne, Chair
Bob Gentzler, Vice-Chair
Gary Kratz, Treasurer
David McCoy, Secretary
Frank Drehwing
Herbert Ford
Patti Soltys



EXECUTIVE STAFF

J. Pete Nardi, General Manager
Larry M. Sapp, Chief Financial Officer
William C. Davis, Operations Manager

HILTON HEAD PUBLIC SERVICE DISTRICT

December 13, 2018

Management Letter of Transmittal

The Commission and staff of the Hilton Head Public Service District (PSD) are pleased to present the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2018. This is the ninth report issued as a CAFR and it will be made available to the general public via the www.hhpsd.com web site. It also can be viewed in person at the PSD's Customer Service Center at 21 Oak Park Drive off Mathews Drive, on Hilton Head Island.

Management is responsible, in all material respects, for both the accuracy of the data included herein, and for the comprehensiveness of the presentation, including all disclosures. The data contained herein is being presented to fairly disclose the financial position and the results of operations of the PSD. All disclosures necessary to provide the reader with an understanding of the PSD's financial and operational activities have been included.

The CAFR is presented in three sections: Introduction; Financial; and Statistical. The Introduction contains an overview of the PSD's mission and its operations, including management transmittal letters. The Financial section has a report of the independent auditor, management's discussion and analysis, the PSD's financial statements, and supplemental financial data. The Statistical section includes financial and demographic information, generally presented on a multi-year basis.

Profile of the Government

The PSD is a special purpose district created by the South Carolina General Assembly in 1969 to provide water and sewer services to Hilton Head Island. The PSD provides:

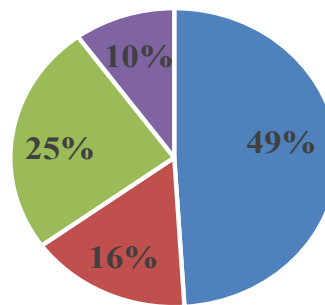
- Tap water production and treatment.
- Tap water distribution.
- Sanitary sewer collections.
- Wastewater treatment.
- Recycled water distribution.

Residents of Hilton Head Island relied on private wells for their drinking water needs until 1957. At that time, a local development firm called the Hilton Head Water Company introduced a community waterworks system, installing water lines and drilling wells throughout the island. Ten separate utilities, both public and

private, provided water and wastewater services to the residents of the island at the time of the PSD’s creation. Beginning in 1995, the PSD acquired the four utilities that now comprise its current service area. In addition, the PSD acquired two small systems on the island previously served by a mainland utility. Consolidation of the remaining island utilities formed the three public service districts currently serving Hilton Head Island – Hilton Head, Broad Creek, and South Island PSDs.

The PSD serves more than 18,000 customers in the north- and mid-island areas of Hilton Head Island, from Jenkins Island to the Hilton Head Resort. The utility’s service area includes many of the neighborhoods where the island’s 40,000 full-time residents reside, including the traditional Native Islander neighborhoods as well as the large-scale subdivisions of Hilton Head Plantation, Indigo Run, Port Royal Plantation, and Palmetto Hall Plantation.

Percent of Supply



■ Reverse Osmosis ■ Freshwater Wells ■ Wholesale Purchased Water ■ Aquifer Storage & Recovery

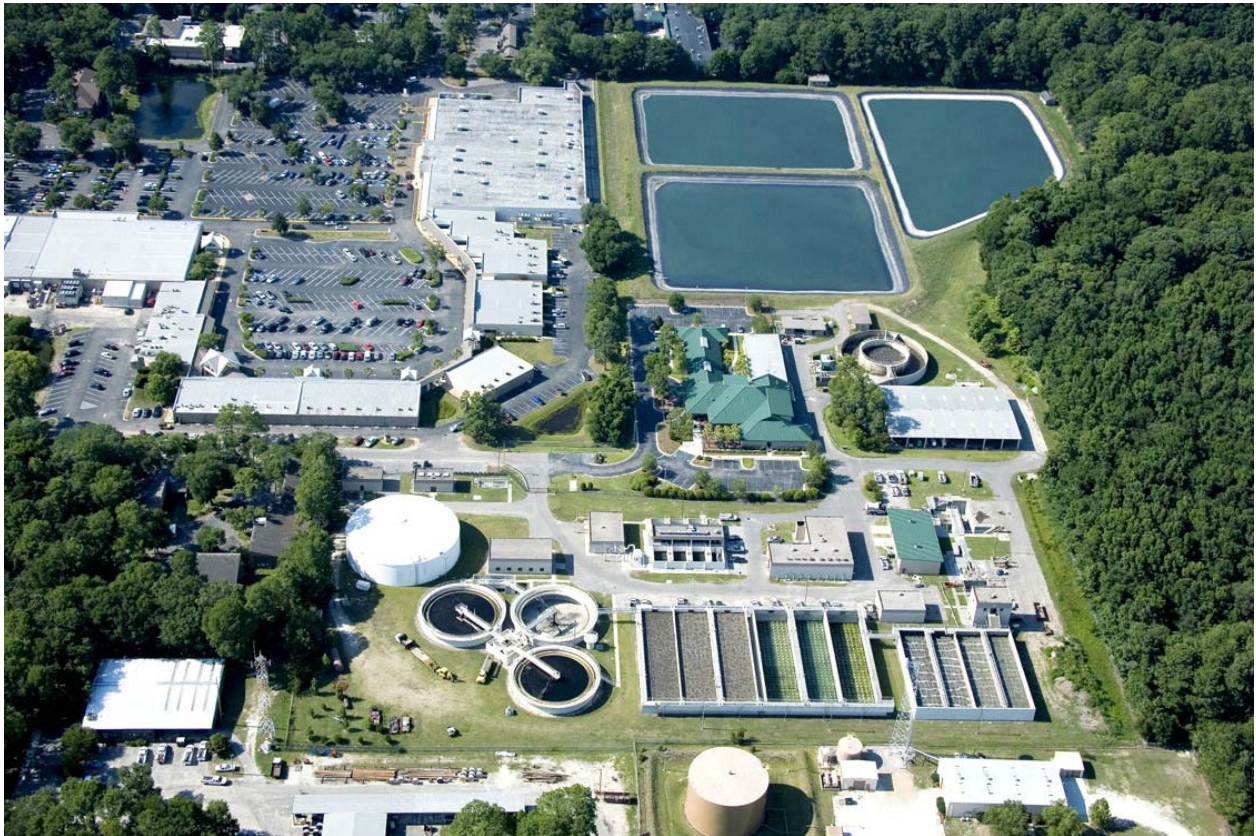
The PSD can provide a maximum water demand of 13 million gallons a day (mgd). It experiences an average demand of 5-6 mgd and a peak demand of 9-10 mgd. The PSD’s Reverse Osmosis (RO) Water Treatment Facility provides 4 mgd, which is about 49% of water supplied in Fiscal Year 2018. The RO Facility’s source of water is brackish groundwater from the 600-foot-deep Middle Floridan Aquifer, pumped from three wells. The brackish water is treated in the RO Facility, which began operations in 2009 in response to the loss of fresh groundwater wells caused by saltwater intrusion into the shallower Upper Floridan Aquifer.

About 25% of water supplied in 2018 was purchased on a wholesale basis from the Beaufort-Jasper Water & Sewer Authority (BJWSA) on the mainland. The treated wholesale water is conveyed to the PSD via its 24” pipeline buried under the Intracoastal Waterway. Fresh groundwater from the PSD’s remaining Upper Floridan wells provided about 16% of water supplied in Fiscal Year 2018.

The remaining 10% of water supplied in Fiscal Year 2018 came from the PSD’s Aquifer Storage & Recovery (ASR) Facility. It is the island’s first-ever ASR facility and began operations in 2011. In the winter months of lower demand, the facility stores approximately 260 million gallons of treated tap water in the Middle Floridan Aquifer. It then withdraws and re-treats the water during the summer months of higher demand, providing 2 mgd of supply. The stored water is purchased at a reduced, “off-peak” rate from BJWSA. The

ASR Facility recovers the stored water in the summer months of higher demand and the full wholesale rate from BJWSA, saving customers' money.

The PSD's Recycled Water Plant is a tertiary-treatment, return activated sludge (RAS) municipal wastewater treatment plant. The Recycled Water Plant is capable of treating 6.4 mgd of wastewater. Average flow into the treatment plant is under 3 mgd. The PSD is a 100% recycled water utility. All treated wastewater is recycled for golf course irrigation or interior wetlands nourishment – no treated wastewater is discharged to any receiving bodies of water.



The PSD Recycled Water Plant

Master Sewer Plan

Work is continuing to bring sewer service to homes in Hilton Head Island's north- and mid-island neighborhoods as part of the Town of Hilton Head Island and Hilton Head Public Service District (PSD) Master Sewer Plan projects. About 440 existing homes will ultimately gain access to sewer as a part of this jointly funded project. In all, more than 9 miles of sewer collector mains will be installed in neighborhoods that previously lacked access. Providing sewer access to communities has been a top priority for the Town Council and the PSD. During fiscal year 2018, the first phase of this project was completed and the related sewer infrastructure was added to the depreciable assets of the PSD's sewage disposal system. The next phrase of this project will continue in fiscal year 2019.

A Letter from the General Manager: **Customer-focused on community goals**



J. Pete Nardi, PSD General Manager

It is once again my pleasure and honor to present for your review the Hilton Head Public Service District (PSD) Fiscal Year 2018 Comprehensive Annual Financial Report (CAFR). This is the first CAFR produced under the guidance of our new Finance Manager, Amy Graybill, C.P.A. Ms. Graybill has more than 10 years of experience in governmental accounting and finance, having worked as an accountant and auditor with a private firm on Hilton Head Island. She earned departmental honors in Accounting as well as the Faculty Scholarship Award while earning her bachelor's degree in Accounting from Clemson University. Ms. Graybill graduated as the Valedictorian of our very own Hilton Head Island High School. We are fortunate to have an individual of Ms. Graybill's caliber to lead our financial future.

The completed fiscal year reflected in this CAFR marks the retirement of our outgoing Finance Manager, Larry Sapp. Mr. Sapp's 20-year tenure with the PSD was marked by his focus on debt management and long-term debt refinancing that has saved our utility hundreds of thousands of dollars. His expertise in debt management has benefitted not only our community but many others through his service at both the state and national levels of the Government Finance Officers Association. The PSD is fortunate for the solid financial footing he has been so instrumental in helping us achieve. We are poised to keep meeting our goals in the future thanks to Mr. Sapp's exceptional service.

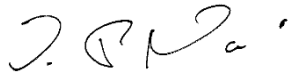
The PSD continues to address key community goals of providing a sustainable and high-quality water supply and providing sanitary sewer access throughout our service area. Our customers remain our top priority each and every day. The achievement of our long-term goals is a key component in forging a top-notch quality of life for all of our customers.

We all are stewards of our most precious natural resource – water. It is of course critical for water utilities to meet the daily demand for water with a high-quality product. Here at the PSD we also take the efficient use of water with the utmost seriousness. We routinely communicate to our customers about the ways in which they can use water more wisely. Our state-of-the-art Advanced Metering Infrastructure (AMI) system allows us to provide an online usage portal where customers can track their consumption and even set alerts if their usage exceeds a daily threshold. It is a great way to elevate the incredible value of water by giving customers a clear picture of how much and when they're using water. The AMI system also lets us reach out to customers who might be experiencing a leak, helping to prevent wasted water and in some cases reducing the potential for property damage.

Our partnership with the Town of Hilton Head Island and the Community Foundation of the Lowcountry is working diligently toward completion of a multi-year program that will see more than nine miles of sewer mains installed in parts of our service area that previously lacked sewer access. The effort involves \$10 million in funding from the Town, \$3 million in long-term, low-interest financing the PSD obtained through the South Carolina Clean Water Revolving Fund to build and upgrade sewer lift stations and install sewer mains, and a \$3-million charitable campaign for the Foundation's Project SAFE (Sewer Access for Everyone) fund that provides sewer connection grants for low- to moderate-income families. This tremendous partnership is completing a long-term community goal that will benefit our customers for generations to come.

We will continue to put our customers first while we help advance our community's future.

All My Best,

A handwritten signature in black ink, appearing to read "J. P. Nardi". The signature is written in a cursive style with a small flourish at the end.

J. Pete Nardi
General Manager
Hilton Head PSD

Financial Information

The Management's Discussion and Analysis ("MD&A") is intended to serve as an introduction to the District's financial statements and should be read in conjunction with the supplementary information and this portion of the management transmittal letter. The MD&A is found in the Financial Section of this report.

Accounting System and Budgetary Control

The District's financial accounting system is based on the full accrual basis in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP). The accounts of the District are organized on the basis of a proprietary fund type enterprise fund. The fund is accounted for by a set of self-balancing accounts that comprise its assets, liabilities, net position, and revenues and expenses. The fund is established to account for water and sewer operations that are financed and operated in a manner similar to private business enterprises, where the intent is to provide goods and services to the general public on a continuing basis with costs recovered primarily through user charges.

The District is required by state law to adopt a balanced budget by June 30 of each year. District staff begins preparation of a draft budget in January, which is presented to the Commission in April and approved prior to June 30 of each year. The budget may be amended from time to time within the fiscal year. As required by the laws of the State of South Carolina, the District will adopt a balanced Operating Budget and provide full disclosure when a deviation from a balanced Operating Budget is planned or when it occurs. This balanced budget will ensure that all operating expenses will not exceed operating revenues at adoption and at year-end. Any increase in expenses, decrease in revenues, or combination of the two that would result in a material budget imbalance may require a Commission approved budget revision.

The District operates on a current funding basis. Expenditures are budgeted and controlled so as not to exceed current revenues plus the planned use of Fund Balances accumulated through prior years.

Internal Accounting Controls

The District has developed and adopted a comprehensive set of financial policies that are consistent with the District's goals and objectives. Financial policies are an integral part of the development of service, providing of capital, and establishing of financial plans and the annual budget. They provide the basis for decision-making and ensure the District's ongoing financial stability. The financial policies of the District provide the structure and direction for financial reporting, planning, and decision making by management and the Board. Additionally, they are designed to ensure the financial integrity of the District. Policies are documented and periodically reviewed to reflect changes in Board policy, legal and professional requirements, and changes in accepted industry practices. Internal accounting controls are designed to provide reasonable assurance that assets are safeguarded from unauthorized use or disposition, and that records used for preparing financial reports and maintaining asset accountability are reliable. Because the cost of control should not exceed the benefits to be derived, the objective is to provide reasonable, rather than absolute assurance that the financial statements are free of any material misstatements.³ A system of internal controls is established and monitored by management. The Finance Manager reviews controls and procedures on a continuing basis and immediately reports any concerns to the General Manager / Finance Committee for resolution. As part of this initiative, the Finance Manager oversees the documentation and

³ Government Finance Officers Association of the United States and Canada (GFOA), *GAAFR – Governmental Accounting, Auditing, and Financial Reporting* (Chicago, IL 60601-1210: GFOA), p. 592 and p. 735.

periodic review of financial standard operating procedures to ensure that internal audit functions and professional skepticism are incorporated as part of the analytical and reporting function. Management of the District is further charged, through personnel policies, with providing the leadership that promotes ethical behavior.

The Finance Committee of the Board of Commissioners serves as the Audit Committee of the District. It is comprised of three members of the Board. Generally, this Committee meets with management regularly to review the financial status of the District. Additionally, the Committee meets with management and the independent external auditors to ensure that both parties are fulfilling their obligations with regard to auditing, controls, and other financial reporting factors.

Rates and Charges

The District maintains and administers a revenue system that assures a reliable, equitable and sufficient revenue stream to support the District services. Since the principal revenue stream for the District is comprised of the fees and charges established by the Commission, the governing body of the District, it is important that the District adopts policies that identify the manner in which fees and charges are set and the extent to which they cover the cost of the service provided.

As stated in the District's financial policies, all user charges and fees are set at levels related to the costs (operating, direct, indirect and capital) of providing its services. The District reviews these fees and charges annually during the budget process and targets rates that are expected to produce revenues sufficient to fully fund the costs of providing services – particularly in the District's key businesses (water and wastewater).

Cost of service includes direct and indirect costs such as operating and maintenance costs, overhead, and charges for use of capital. The District may choose not to recover all costs, but it must identify such costs. Reasons for not recovering full costs are identified and explained.

The District also examines rates and charges levied by other water and sewer systems for like services in establishing rates, fees and charges. These fees (water and sewer user fees, capacity fees, tap fees, tower revenues, etc.) are reviewed through the District's annual cost of service process. An aggressive policy of seeking the collection of delinquent utility accounts is maintained and is outlined by specific procedures. In projecting revenues - and where judgment is required - conservatism is the rule.

In compliance with the District's financial policies, water and sewer rate increases are minimized whenever possible. However, both water and sewer rate increases have been necessary in the past to sustain necessary revenues to support related water and sewer expenses. On June 28, 2016, the District's Board adopted a water and sewer rate increase to be effective July 1, 2016 whereby both the water and sewer base rates were increased by \$1.00. For a summary of the District's historical and present water and sewer rates, please reference the Water and Sewer Rate Comparison Table in the Statistical Section on page 95.

Millage

Pursuant to Act No. 596 of 1969, the District is authorized to impose ad valorem property taxes not to exceed ten mills to defray a portion of its operational costs; however, the District's operational ad valorem millage is now capped by statute at 3 mills. As of July 1, 2007, millage rates for operations may increase only at a rate equal to the sum of (a) the increase in the consumer price index, plus (b) the rate of population growth of the political subdivision or school district. This limitation may be overridden by a vote of two-thirds of the governing body of the political subdivision, but only for the following purposes and only in a year in which such condition exists:

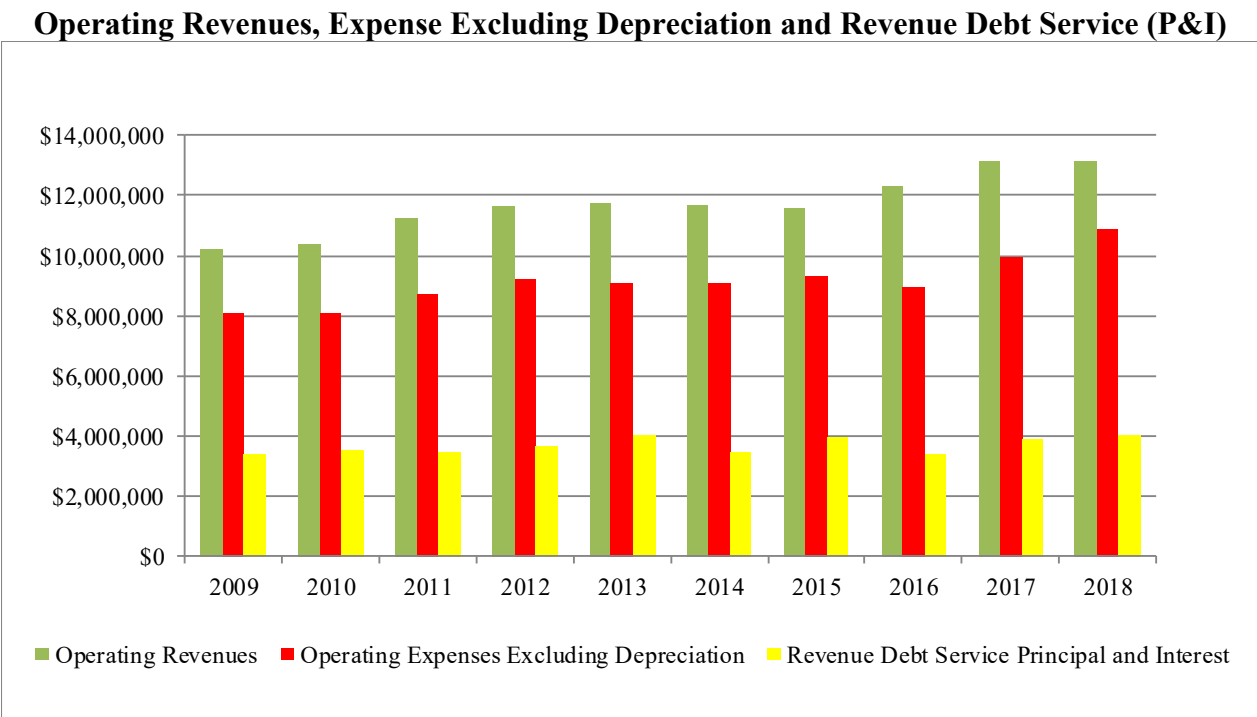
1. a deficiency of the preceding year;
2. any catastrophic event outside the control of the governing body such as a natural disaster, severe weather event, act of God, or act of terrorism, fire, war, or riot;
3. compliance with a court order or decree;
4. taxpayer closure due to circumstances outside the control of the governing body that decreases by ten percent or more the amount of revenue payable to the taxing jurisdiction in the preceding year;
5. compliance with a regulation promulgated or statute enacted by the federal or state government after the ratification date of this section for which an appropriation or a method for obtaining an appropriation is not provided by the federal or state government;
6. purchase by the local governing body of undeveloped real property or of the residential development rights in undeveloped real property near an operating United States military base which property has been identified as suitable for residential development but which residential development would constitute undesirable residential encroachment upon the United States military base as determined by the local governing body. The local governing body shall enact an ordinance authorizing such purchase and the ordinance must state the nature and extent of the potential residential encroachment, how the purchased property or development rights would be used and specifically how and why this use would be beneficial to the United States military base, and what the impact would be to the United States military base if such purchase were not made. Millage rate increases for the purpose of such purchase must be separately stated on each tax bill and must specify the property, or the development rights to be purchased, the amount to be collected for such purchase, and the length of time that the millage rate increase will be in effect. The millage rate increase must reasonably relate to the purchase price and must be rescinded five years after it was placed in effect or when the amount specified to be collected is collected, whichever occurs first. The millage rate increase for such purchase may not be reinstated unless approved by a majority of the qualified voters of the governmental entity voting in a referendum. The cost of holding the referendum must be paid from the taxes collected due to the increased millage rate; or
7. to purchase capital equipment and make expenditures related to the installation, operation, and purchase of the capital equipment including, but not limited to, taxes, duty, transportation, delivery, and transit insurance, in a county having a population of less than one hundred thousand persons and having at least forty thousand acres of state forest land. For purposes of

this section, “capital equipment” means an article of nonexpendable, tangible, personal property, to include communication software when purchased with a computer, having a useful life of more than one year and an acquisition cost of fifty thousand dollars or more for each unit.

The limitations described above do not apply to the levy of debt service millage. Therefore, the District is also authorized to impose ad valorem property taxes, without limit as to rate or amount, to defray the debt service on general obligation bonds of the District. All of such general obligation bonds are approved by the Beaufort County Council pursuant to South Carolina general law. Absent a referendum, the outstanding par amount of general obligation bonds issued by the PSD shall not exceed eight percent (8%) of the assessed value of all taxable property in the PSD. This item is covered in more detail on page 99 under General Obligation Debt Limit.

Financial Condition

Operating revenues, operating expenses (excluding depreciation), and revenue related debt service payments for the past ten fiscal years are summarized in the following graph.



Total operating revenues for fiscal year 2018 were \$13,125,419 compared to \$13,088,588 for fiscal year 2017, a slight increase of \$36,831. Water service revenues were down \$94,173 or 1.4% compared to last fiscal year due to lower billed water consumption. Billed water consumption for fiscal year 2018 was 1,933,031 Mgals compared to 2,159,321 Mgals for fiscal year 2017. Despite lower water consumption sewer revenues were up \$83,797 or 1.6% due to more sewer customers being added to the system.⁴

⁴ Residential sewer service customers billed consumption is capped at 10,000 gallons per month. Therefore sewer service revenues are not necessarily as adversely affected by lower water consumption compared to water service revenues.

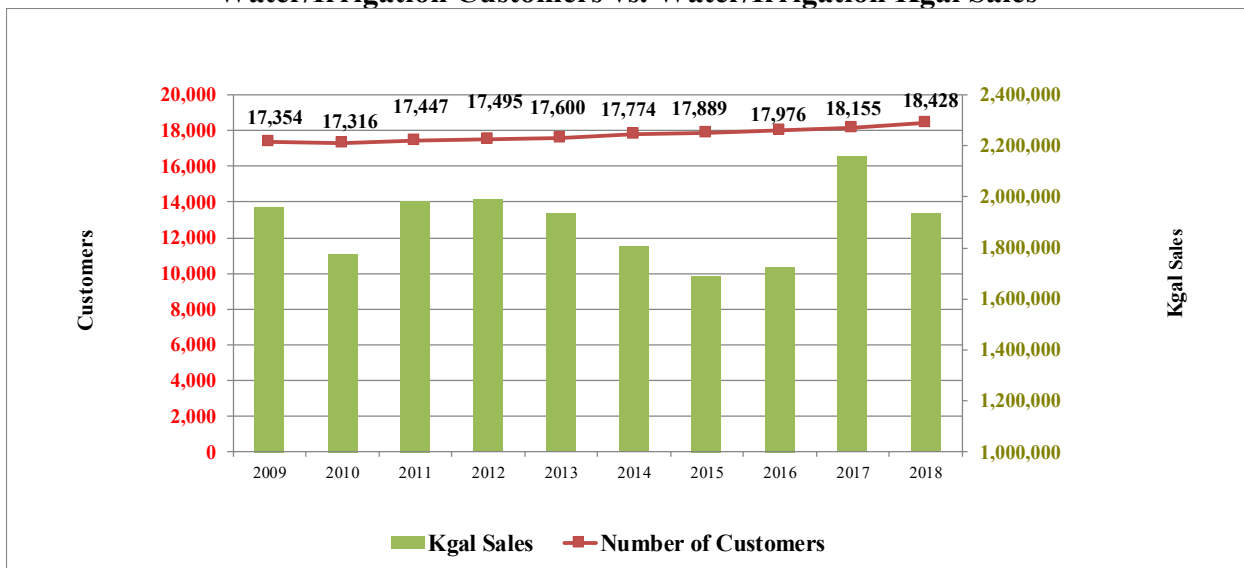
Billed water consumption for fiscal year 2017 was 434.9 million gallons or 25% higher than fiscal year 2016 due to much dryer weather. As mentioned previously, the District also had a full year water rate increase that was effective July 1, 2016. Further, after Hurricane Matthew there was widespread turf restoration which resulted in higher irrigation. As such, water service revenues were \$6,680,175, an increase of \$670,766 or 11.2% compared to fiscal year 2016. Sewer revenues were up \$87,087 or 1.7%.

For fiscal year 2016, billed water consumption was 31.6 million gallons or 1.9% higher than fiscal year 2015. There was also a full fiscal year of the \$1.00 water base rate increase that was put into effect on January 1, 2015. As such, water service revenues were up \$281,717 or 4.9% when compared fiscal year 2015. Fiscal year 2016 sewer revenues were up \$218,062 or 4.5% due to increased consumption and a full fiscal year of the \$1.00 sewer base rate increase effective January 1, 2015. Total fiscal year 2016 operating revenues increased \$694,713 or 6.0% compared to fiscal year 2015, while departmental expenses decreased \$371,145 or 4.0%.

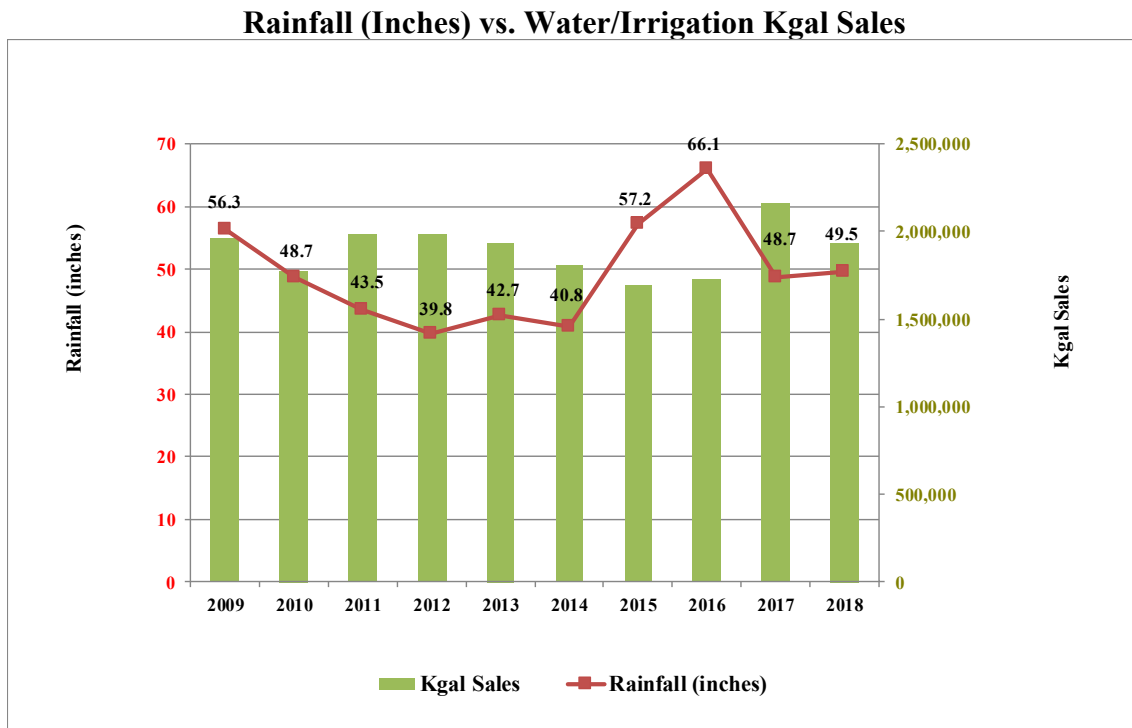
Departmental expenses are covered in more detail in the Management Discussion and Analysis section of this report on page 34.

The following table shows customer counts in relation to water and irrigation Kgal sales. While typically more customers equate to more water consumed, there is no evident direct relationship between the District’s customer counts and overall consumption levels due to the other variables that influence customer water consumption (e.g. weather, economy, efficiency).

Water/Irrigation Customers vs. Water/Irrigation Kgal Sales



The following chart is a comparison of rainfall amounts in relation to water and irrigation Kgal sales.

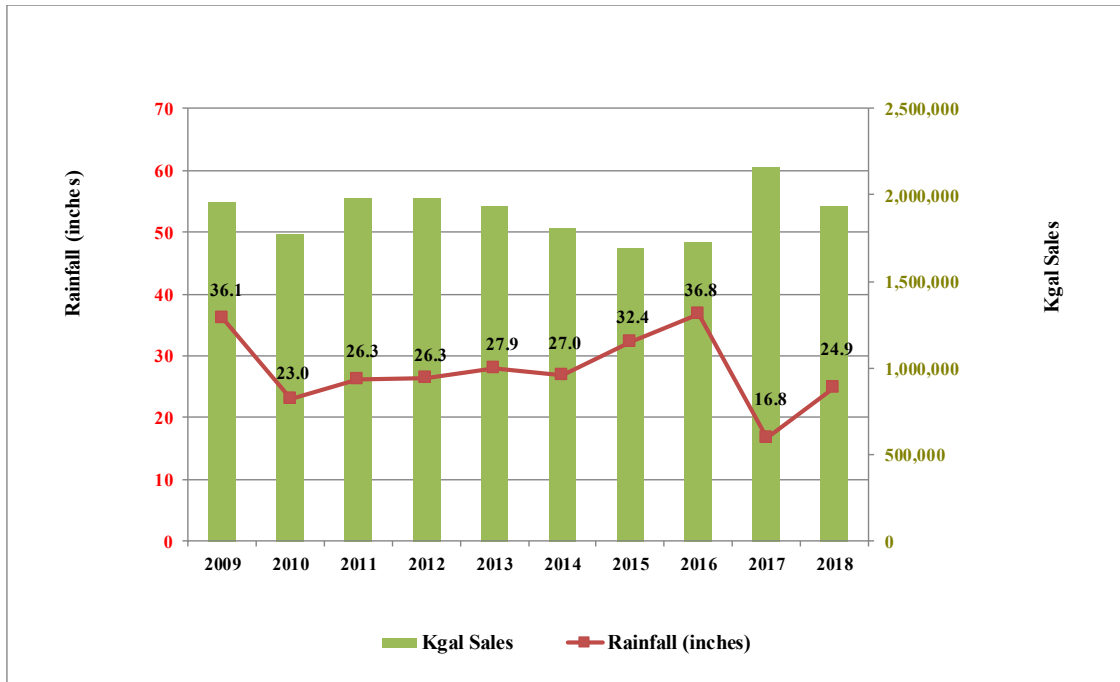


Fiscal year 2018 rainfall totaled 49.5 inches of rainfall as compared to 48.7 inches for fiscal year 2017.⁵ As mentioned previously billed water usage totaled 1,933,031 Mgals and decreased 226.3 million gallons or 10.5% when compared to fiscal year 2017. While fiscal year 2017 had 48.7 inches of rainfall, it should be noted that almost 11 inches of that total was due to Hurricane Matthew. Billed water usage totaled 2,159,321 Mgals and increased 434.87 million gallons or 25% for fiscal year 2017 when compared to fiscal year 2016. This was the most water the District has ever billed for a fiscal year mainly due to dryer weather. Another factor was Hurricane Matthew, both during and after Hurricane Matthew there were multiple “customer side of meter” water line breaks which increased billed usage. Further, after Hurricane Matthew many customers had new landscaping and plantings added to replenish properties that were damaged. This resulted in higher than usual irrigation to get these new plantings started.

⁵ Rainfall measurements were recorded at the wastewater treatment plant.

Low spring/summer rainfall also was a major factor in the high amount of water that was billed for both fiscal year 2018 and 2017. While there is some correlation evident between annual rainfall and consumption when viewing the previous graph, the relationship between rainfall and consumption becomes more evident when viewing the following graph, that takes into account the spring and summer month rainfall amounts for each fiscal year.⁶ Comparatively both fiscal year 2018 and 2017 had low rainfall amounts when compared to other years. The last time the District recorded lower summer rainfall than fiscal year 2017 was for fiscal year 2000.

Summer Rainfall (Inches) vs. Water/Irrigation Kgal Sales



⁶ Months included for each year are March through August.

Independent Audit

The accompanying financial statements have been audited by the District's independent auditors, Robinson Grant & Co., P.A., and their report on the financial statements resulting from their audit is included in the Financial Section of this report.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Hilton Head Public Service District for its comprehensive annual financial report for the fiscal year ended June 30, 2017 (reference the following page). This was the eighth year that the District achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must establish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

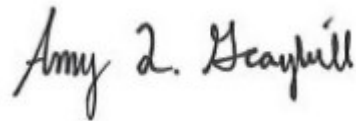
A Certificate of Achievement is valid for a period of one year only. Management believes that the current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and is submitting it to the GFOA to determine its eligibility for another certificate.

Final Comments

Management has developed policies and procedures that direct personnel actions toward the Board's adopted mission of providing high quality water and sewer service to all properties within the District and provide those services at a reasonable cost. Further, the Board has adopted the District's Strategic Goals that support the District's mission. These goals are reviewed annually during the early planning process of creating staff work plans for the upcoming fiscal budgeting process.



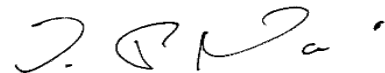
Larry Sapp, CGFO, Chief Financial Officer



Amy Graybill, Finance Manager



Brian Cronin, Senior Accountant



Pete Nardi, General Manager



Government Finance Officers Association

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**Hilton Head Public Service District
South Carolina**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morill

Executive Director/CEO

FINANCIAL

For Fiscal Years Ended June 30, 2018 and June 30, 2017



Robinson Grant & Co., P.A.

CERTIFIED PUBLIC ACCOUNTANTS
MEMBERS OF THE AMERICAN INSTITUTE OF CPAS & S.C. ASSOCIATION OF CPAS

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INDEPENDENT AUDITORS' REPORT

December 13, 2018

The Commissioners
Hilton Head No. 1 Public Service District
Hilton Head Island, South Carolina

We have audited the accompanying financial statements of Hilton Head No. 1 Public Service District (the "District"), which comprise the statements of net position as of June 30, 2018 and 2017, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hilton Head No. 1 Public Service District as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information schedules as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements of Hilton Head No. 1 Public Service District taken as a whole. The introductory section, supplementary information, and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Kolman & Co., P.A.

Management’s Discussion and Analysis

This section of the Hilton Head No. 1 Public Service District’s (the “District”) annual financial statements presents our analysis of the District’s financial performance during the fiscal years ending June 30, 2018, 2017 and 2016. Please read it in conjunction with the unaudited financial statements contained in this section.

Financial Highlights

- Total assets at the end of the fiscal year 2018 were approximately \$89.5 million (See Table A-1, Page 28). Total assets including deferred outflows of resources were \$91.9 million, exceeding liabilities by \$41.9 million.
- Water Customer Growth: The District added 273 new water/irrigation taps to the system in fiscal year 2018. As of June 30, 2018, the District has a total of 18,428 equivalent dwelling units (EDUs). This is a 1.5% increase for FY’18. For FY’17 there was a 1.0% increase in total EDUs. The current EDUs include 17,345 water service units, 1,032 irrigation service units, and 51 miscellaneous water units such as dock meters, hydrants, pool meters, and golf course water coolers.

Water & Irrigation Customers

<u>Fiscal Year</u>	<u>Residential</u>	<u>Master Metered Residential</u>	<u>Commercial</u>	<u>Total</u>	<u>% Growth</u>
2018	11,492	4,907	2,029	18,428	1.5%
2017	11,226	4,907	2,022	18,155	1.0%
2016	11,060	4,907	2,009	17,976	0.5%
2015	10,997	4,851	2,041	17,889	0.6%
2014	10,846	4,850	2,078	17,774	1.0%
2013	10,679	4,850	2,071	17,600	0.6%
2012	10,565	4,850	2,080	17,495	0.3%
2011	10,527	4,843	2,077	17,447	0.8%
2010	10,415	4,843	2,058	17,316	-0.2%
2009	10,440	4,843	2,071	17,354	-0.2%
2008	10,525	4,834	2,030	17,389	0.5%

- Sewer Customer Growth: The District added 297 new sewer connections to the system in fiscal year 2018. As of June 30, 2018, sewer service EDUs total 16,258. This is a 1.9% increase for FY’18 as compared to the FY’17 increase of 1.3%.

Sewer Customers

<u>Fiscal Year</u>	<u>Residential</u>	<u>Master Metered Residential</u>	<u>Commercial</u>	<u>Total</u>	<u>% Growth</u>
2018	9,882	4,907	1,469	16,258	1.9%
2017	9,588	4,907	1,466	15,961	1.3%
2016	9,431	4,907	1,420	15,758	0.8%
2015	9,305	4,851	1,477	15,633	0.9%
2014	9,175	4,850	1,461	15,486	1.5%
2013	8,976	4,850	1,434	15,260	1.0%
2012	8,847	4,850	1,412	15,109	0.5%
2011	8,775	4,843	1,412	15,030	0.9%
2010	8,653	4,843	1,395	14,891	0.1%
2009	8,635	4,843	1,402	14,880	0.3%
2008	8,603	4,834	1,398	14,835	1.2%
2007	8,467	4,822	1,369	14,658	2.0%

- As shown in the table below, the sewer to water customer percentage has increased to 93.73% percent since the beginning of fiscal year 2018.⁷ This increase is primarily due to the District’s Master Sewer Plan.

Water / Sewer Connection Growth 06/30/18								
<u>Date</u>	<u>Water & Irrigation EDU's</u>	<u>Only Water EDU's</u>	<u>Inactive Water EDU's</u>	<u>Change in Water EDU's</u>	<u>Sewer EDU's</u>	<u>Inactive Sewer EDU's</u>	<u>Change in Sewer EDU's</u>	<u>% Sewer to Water EDU's</u>
06/30/17	18,155	17,076	334	N/A	15,961	148	N/A	93.47%
09/30/17	18,239	17,153	330	77	16,038	150	77	93.50%
12/31/17	18,281	17,195	334	42	16,081	154	43	93.52%
03/31/18	18,342	17,260	338	65	16,159	148	78	93.62%
06/30/18	<u>18,428</u>	<u>17,345</u>	331	85	<u>16,258</u>	147	<u>99</u>	93.73%
Total EDU's Added	<u>273</u>	<u>269</u>		<u>269</u>	<u>297</u>		<u>297</u>	

- Series 2017A Revenue Bond - On August 21, 2017, the District issued \$515,000 of Series 2017A revenue bonds for purposes of funding sewer connections in certain previously unserved areas of the District. The bonds are an obligation of the District, bear interest at the rate of 2.69% per annum and are payable annual principal and interest payments of \$41,932. These bonds will be due in annual payments starting June 2018 through June 3032. The bonds are payable from revenues derived from operations of the District’s systems and are secured by a lien upon these revenues and the collection of annual assessments to the owners in the areas that were connected over a 20-year period and will be collected by the county treasurer.
- Series 2017B Revenue Note - On August 23, 2017, the District signed a promissory note to the South Carolina Water Quality Revolving Fund Authority. The total proceeds from this note were \$1,287,051. Total proceeds were used to defray the certain improvements to its wastewater system. The improvements consist of (i) pump station construction and upgrades; and (ii) installation of related improvements and appurtenances (collectively, the “Project”). Upon completion, the Project will be a part of and will constitute a portion of the District’s waterworks and sewer system (together,

⁷ This percentage is based solely on water customers and does not include irrigation, dock meters, hydrants, pool meters, and golf course water coolers etc.

the “System”). The note bears interest at a rate of 1.90% per annum. Eighty quarterly principal and interest payments of \$19,375 will be due beginning March 1, 2018. The notes are payable from revenues derived from operation of the District’s system, and are secured by a lien upon these revenues.

- On August 23, 2017, the District’s centrifuge equipment caught on fire. The District received \$69,000 of insurance recoveries related to the fire. The District sold the damaged equipment to a third party for \$46,000. The historical cost of the equipment that was damaged was \$500,950 with a carrying book value of \$29,284. The insurance proceeds of \$69,000 and sale proceeds of \$46,000 were netted against the book carrying value resulting in a gain of \$85,716 which is reported as a part of the gain on the sale of fixed assets in the statement of revenues, expenses and changes in net position. The District incurred additional operational costs to rent temporary equipment, which required the use of additional purchased water, up until the installation of the new centrifuge in May 2018.
- On September 11, 2017 the District was impacted by then Tropical Storm Irma. The District was very fortunate that the impacts were minimal. The island received roughly seven (7) inches of rain, six (6) feet of Storm Surge, and wind gusts of just over 48 mph. Additionally, the closest point to monitor the tides were at Ft. Pulaski Georgia and measured a high tide of 12.24 feet, approximately six (6) inches below Hurricane Matthew. There were no damages to insured assets. The District received \$74,441 of FEMA CAT-B assistance for administrative and maintenance payroll related to storm preparation and claim administration as well as per diem payments for usage of District equipment in preparation efforts.

Subsequent Events

- On July 1, 2018, a rate increase was put into effect whereby the water base rates were increased by \$1.50 and sewer base rates were increased by \$0.50 and volumetric rates were adjusted as follows:

	Residential Water	Residential Irrigation	Commercial Water and Irrigation
First 10,000 gallons	\$ 1.40	\$ 1.72	\$ 1.69
Next 10,001 to 20,000 gallons	\$ 1.72	\$ 1.72	\$ 2.01
Next 20,001 to 30,000 gallons	\$ 2.18	\$ 2.18	\$ 2.52
Over 30,000 gallons	\$ 2.60	\$ 2.60	\$ 2.97

The District’s Board adopted this rate increase at the June Commission Meeting on June 26, 2018.

- The District is in the process of applying for a loan not to exceed \$2,200,000 with the South Carolina Water Quality Revolving Fund Authority to defray the costs of improvements to the District’s waterworks and sewer system as a part of the Master Sewer Plan.

Financial Analysis of the District

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information about the District's activities in a way that shows the District's financial position as a result of this year's operations. These two statements report the net position of the District and year-to-year changes. The District's net position and the difference between deferred outflows and deferred inflows of resources is one way to measure financial health or financial position. Over time, increases or decreases to net position are indicators of whether the District's financial health is improving or deteriorating. However, one must also consider other non-financial factors such as changes in economic conditions, population growth, annexation and new or changed legislation in the evaluation of the District's financial status.

Condensed Statements of Net Position

The following comparative condensed statements of net position show changes in financial position from previous fiscal years as of June 30, 2018, 2017, and 2016.

TABLE A-1
Hilton Head Public Service District
Condensed Statements of Net Position

Year Ended June 30,	<u>2018</u>	<u>2017</u>	<u>2016</u>	2017 to 2018	%
Assets					
				Increase (decrease)	
Current assets	\$ 7,171,100	\$ 7,895,324	\$ 6,642,875	\$ (724,225)	-9.2%
Restricted assets	2,425,274	2,406,220	2,482,528	19,054	0.8%
Net Property Plant & Equipment	77,756,658	74,738,599	76,843,129	3,018,059	4.0%
Sewer Assessments, Long-term	2,090,994	1,730,234	1,890,736	360,760	20.9%
Other	62,373	45,010	250,629	17,364	38.6%
Total Assets	<u>89,506,399</u>	<u>86,815,386</u>	<u>88,109,897</u>	<u>2,691,013</u>	<u>3.1%</u>
Deferred outflows of resources					
Deferred outflows related to pensions	1,167,332	691,435	330,809	475,897	68.8%
Deferred outflows from refunding debt	1,237,445	1,493,873	1,750,301	(256,428)	-17.2%
	<u>2,404,777</u>	<u>2,185,308</u>	<u>2,081,110</u>	<u>219,469</u>	<u>10.0%</u>
Total assets and deferred outflows of resources	<u>\$ 91,911,176</u>	<u>\$ 89,000,694</u>	<u>\$ 90,191,007</u>	<u>2,910,482</u>	<u>3.3%</u>
Liabilities					
Current Liabilities	6,470,157	6,160,923	5,995,566	309,233	5.0%
Noncurrent Liabilities, net of amortization	43,206,306	45,257,260	49,603,079	(2,050,953)	-4.5%
Total Liabilities	49,676,463	51,418,183	55,598,645	(1,741,720)	-3.4%
Deferred inflows of resources					
Deferred inflows related to pensions	282,842	427,630	82,480	(144,788)	-33.9%
	49,959,305	51,845,813	55,681,125	(1,886,508)	
Net Position					
Net investment in capital assets	36,023,464	30,631,424	28,981,560	5,392,040	17.6%
Restricted for debt service	2,425,274	2,406,220	2,482,528	19,054	0.8%
Unrestricted	3,503,133	4,117,237	3,045,794	(614,104)	-14.9%
Total Net Position	<u>41,951,871</u>	<u>37,154,881</u>	<u>34,509,882</u>	<u>4,796,990</u>	<u>12.9%</u>
Total Liabilities and Net Position	<u>\$ 91,911,176</u>	<u>\$ 89,000,694</u>	<u>\$ 90,191,007</u>	<u>\$ 2,910,482</u>	<u>3.3%</u>

Net Position

Changes in net position result from operating and non-operating revenues, expenses and contributions of capital. Net position is classified under the following three components: 1) *net investment in capital assets*; 2) *restricted for debt service*; and 3) *unrestricted net position*.

Net investment in capital assets, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds of other restricted cash and investments is excluded from the determination.

Restricted for debt service consists of the net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates, less any related liabilities.

Unrestricted net position consists of all other assets not included in the above categories.

The total net position as of June 30, 2018, was \$41,951,871, representing a \$4,796,990 increase from the prior year. Fiscal year 2017 had an increase in total net position from fiscal year 2016 of \$2,644,999.

Year Ended June 30,	Net Position		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Net investment in capital assets	\$ 36,023,464	\$ 30,631,424	\$ 28,981,560
Restricted for debt service	2,425,274	2,406,220	2,482,528
Unrestricted	<u>3,503,133</u>	<u>4,117,237</u>	<u>3,045,794</u>
Total Net Position	<u>\$ 41,951,871</u>	<u>\$ 37,154,881</u>	<u>\$ 34,509,882</u>

Of the total net position, \$7,171,100 million are current non-restricted assets available to support short-term operations (see Table A-1, page 28). This current asset balance is \$724,225 lower than on June 30, 2017 of which \$533,756 relates to a decrease in disaster recovery insurance receivables related to Hurricane Matthew which caused significant damage in fiscal year 2017.

The increase in property, plant & equipment is discussed in further detail on the following page.

Sewer assessments long-term increased due to the addition of front foot assessments related to the issuance of the series 2017A revenue bond in fiscal year 2018.

One of the drivers of the increase in current liabilities was the issuance of the series 2017A and 2017B revenue debt during fiscal year 2018. The addition of these bonds in noncurrent liabilities was offset by annual debt payments and a \$828,141 increase in net pension liability.

The increase in net investment in capital assets is related mainly to the purchases of capital assets and payments on related debt made by the District during fiscal year 2018. More detail on the three classifications of net position can be found in Note 17 – Net position on page 73.

Capital Assets

As of June 30, 2018, the District has invested \$77,756,658 (net of accumulated depreciation) in water and sewer equipment and a broad range of infrastructure as shown in Table A-2 below.

TABLE A-2
Capital Assets

Year Ended June 30,	<u>2018</u>	<u>2017</u>	<u>2016</u>
<u>Capital assets not being depreciated:</u>			
Land	\$ 1,299,194	\$ 1,299,193	\$ 1,299,194
Construction in Progress	<u>513,974</u>	<u>1,457,297</u>	<u>785,002</u>
Total Capital Assets not being depreciated	1,813,168	2,756,490	2,084,196
 Capital assets being depreciated:			
Waterworks system	62,546,463	62,618,555	62,262,580
Sewage disposal system	48,736,481	40,891,189	39,645,717
Buildings	4,339,091	4,339,091	4,339,091
Sewage treatment facilities	34,337,603	34,727,539	34,727,539
Transportation equipment	1,282,929	1,170,788	1,098,157
Operations furniture and equipment	2,037,521	2,076,253	2,198,499
Office furniture and equipment	<u>778,553</u>	<u>778,553</u>	<u>776,042</u>
Sub Total	\$ 154,058,641	\$ 146,601,968	\$ 145,047,625
Less Accumulated depreciation	<u>(78,115,155)</u>	<u>(74,619,859)</u>	<u>(70,288,692)</u>
Total capital assets being depreciated, net	<u>75,943,490</u>	<u>71,982,109</u>	<u>74,758,933</u>
 Property, Plant and Equipment, net	 <u>77,756,658</u>	 <u>74,738,599</u>	 <u>76,843,129</u>

Net Property Plant & Equipment has increased \$3,018,059 during fiscal year 2018. During fiscal year 2018, capital expenditures of \$7,780,956 were offset by depreciation of \$4,733,613 and disposal of assets with a carrying value of \$29,285. Major projects/additions completed during 2018 include:

- Years 1 and 2 of the Master Sewer Plan were completed and \$5,673,252 of new sewer infrastructure and \$1,265,106 of new lift stations in the Mid Marshland, Spanish Wells, and Dillon road areas were added to the system.
- A replacement centrifuge was purchased for \$744,450.
- \$220,895 was spent on wastewater treatment plant screw pump upgrades and improvements.
- Upgrades and improvements to eight of the District's existing lift stations totaled \$212,445.

More detailed information on capital asset activity can be found in Note 5 - Property, plant, equipment and depreciation on pages 54 and 55 and Master Sewer Plan Commitments made for capital expenditures can be found in Note 13 – Construction and development commitments / Expansion on page 64.

Non-current Liabilities and Debt Administration

As of June 30, 2018, (see Table A-1, page 28) the District had \$43,206,306 in non-current liabilities as compared to fiscal year end 2017 total of \$45,257,260. More detailed information on long term debt obligation can be found in Note 6 – Long term obligations on page 55 and Note 7 – Non-current liabilities on page 60.

Bond covenants require that the District maintain and collect rates and charges which together with income are reasonably expected to yield annual net earnings equal to at least the sum of one hundred twenty percent (120%) of annual principal and interest requirements for all revenue bonds outstanding. The District’s revenue bonds are secured by the revenues of the District. As shown in the following table, the District is in compliance with the necessary requirements at 124%.

**TABLE A-3
Coverage of Debt Service**

Year Ended June 30,	<u>2018</u>	<u>2017</u>	<u>2016</u>
Net Income(loss) before capital contributions			
per Financial Statements	(\$655,130)	\$310,587	\$225,930
Capacity Fees	565,672	565,093	585,744
Add: Depreciation	4,733,613	4,576,123	4,482,776
Net Pension Expense	514,614	251,759	298,810
SCRS Retirement Contributions	(307,158)	(272,562)	(222,257)
Amortization	256,428	256,428	243,692
Bond Issuance Costs	69,609	-	119,950
Interest Expense (Bonds)	1,030,789	1,091,811	1,230,078
Assessments - Debt Service	190,300	157,973	452,658
Less: Property Taxes – Debt Service	<u>(1,441,325)</u>	<u>(1,403,497)</u>	<u>(1,396,680)</u>
Net Earnings Available for Debt Service	\$4,957,414	\$5,533,715	\$6,020,702
Debt Service on Revenue Bonds	\$4,008,312	\$3,923,462	\$3,441,323
Coverage of Debt Service by Net Earnings*	124%	141%	175%
Debt Coverage without Capacity Fees	110%	127%	158%

Statements of Revenues, Expenses and Changes in Net Position

While the Statement of Net Position shows the change in net position, the Statement of Revenues, Expenses, and Changes in Net Positions provides information regarding the nature and source of these changes as presented below:

TABLE A-4
Hilton Head PSD
Statement of Revenues, Expenses and Changes in Net Position and Comparison Schedule

Year Ended June 30,	2018		2017		2016		2017 to 2018 Actual		2016 to 2017 Actual	
	Actual	Actual	Actual	Actual	Inc/(Dec)	% Change	Inc/(Dec)	% Change		
Operating Revenues	\$ 13,125,419	\$ 13,088,588	\$ 12,285,436	\$ 36,831	0.3%	\$ 803,153	6.5%			
Total Non-operating Revenues	<u>3,171,736</u>	<u>3,090,725</u>	<u>2,972,492</u>	<u>81,011</u>	<u>2.6%</u>	<u>118,233</u>	<u>4.0%</u>			
Total Revenues	16,297,155	16,179,314	15,257,928	117,841	0.7%	921,386	6.0%			
Departmental Expenses	10,861,845	9,944,364	8,955,501	(917,480)	-9.2%	(988,863)	-11.0%			
Depreciation	4,733,613	4,576,123	4,482,776	(157,490)	-3.4%	(93,347)	-2.1%			
Total Non-operating Expenses	<u>1,356,827</u>	<u>1,348,239</u>	<u>1,593,721</u>	<u>(8,588)</u>	<u>-0.6%</u>	<u>245,482</u>	<u>15.4%</u>			
Total Expenses	<u>16,952,285</u>	<u>15,868,727</u>	<u>15,031,999</u>	<u>(1,083,558)</u>	<u>-6.8%</u>	<u>(836,728)</u>	<u>-5.6%</u>			
Increase (decrease) in net position before capital contributions	(655,130)	310,587	225,929	(965,717)	310.9%	84,659	37.5%			
Capital Contributions:										
Water Capacity Fee	142,200	208,423	273,256	(66,223)	-31.8%	(64,833)	-23.7%			
Sewer Capacity Fee	423,472	356,670	312,488	66,802	18.7%	44,182	14.1%			
Developer Contributions of Systems	4,476,201	1,769,319	819,099	2,706,882	153.0%	950,220	116.0%			
Sewer Assessments	<u>410,246</u>	<u>-</u>	<u>-</u>	<u>410,246</u>	<u>-</u>	<u>-</u>	<u>-</u>			
Total Capital Contributions	<u>5,452,119</u>	<u>2,334,412</u>	<u>1,404,843</u>	<u>3,117,707</u>	<u>133.6%</u>	<u>929,569</u>	<u>66.2%</u>			
Change in net position	\$ 4,796,990	\$ 2,644,999	\$ 1,630,772	\$ 2,151,990	81.4%	\$ 1,014,227	62.2%			
Net position, beginning of the year	<u>37,154,881</u>	<u>\$ 34,509,881</u>	<u>32,879,109</u>							
Net position, end of year	<u>\$ 41,951,871</u>	<u>\$ 37,154,881</u>	<u>\$ 34,509,881</u>							

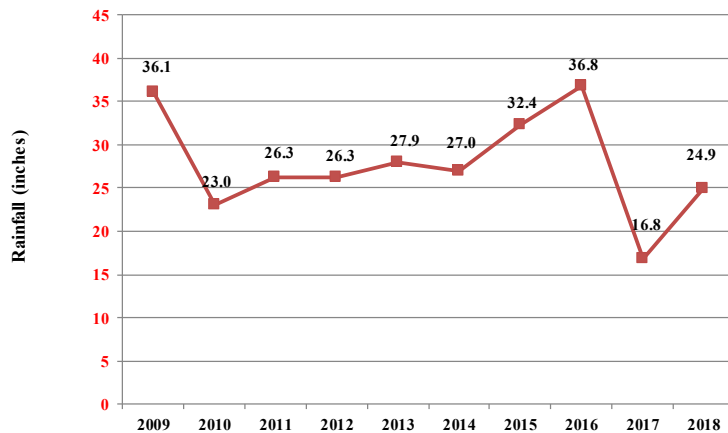
Operating Revenues (Fiscal Year to Year Comparisons)

Operating revenues for fiscal year 2018 total \$13,125,419, which is over 80% of total revenues (operating and non-operating) for the year. Total operating revenues have increased 0.3% or \$36,831 compared to last year's revenues. Total operating revenues increased \$803,153 or 6.5% from fiscal year 2016 to fiscal year 2017. Please reference Table A-5 on page 36 for the following operating revenue line items.

- Water service revenues were down \$94,173 or 1.4% compared to last fiscal year due to lower billed water consumption. Fiscal year billed water consumption was down 233.9 million gallons or 10.8% when compared to last fiscal year. For the spring and summer months there was 8.1 inches more rainfall for fiscal year 2018 compared to fiscal year 2017.⁸

⁸ Rainfall measurements were recorded at the wastewater treatment plant. Spring/summer months included for each fiscal year are July through August and March through June.

Fiscal Year Spring/Summer Rainfall



- Sewer service revenues were up \$83,797 or 1.6% due to more sewer customers being added to the system.
- Water Tap in fees increased \$76,094 or 55% mainly due to new construction and Water Fund approved water connections.⁹ Sewer Connection Fees increased \$9,872 or 4.5%. There have been a large number of low pressure and gravity sewer connections related to new construction and Master Sewer Plan connections.
- Service fees were \$4,954 or 17% higher than last year due to increased collection efforts associated with delinquent accounts.
- Golf course irrigation revenue was \$109,923 or 34% lower compared to last fiscal year. For fiscal year 2018 golf course personnel have been making a conscious effort to only irrigate when absolutely necessary. Additionally, there was more spring/summer rainfall.
- Availability fees were lower this fiscal year due to additional water and sewer connections on existing homes.
- The Disaster recovery, net line item includes reimbursements that the District received from FEMA and the SCEMD for damages associated with Hurricane Matthew and Tropical Storm Irma.
- Other operating revenues are \$24,890 or 87% more than last year mainly due to Palmetto Electric capital credit payments that were received in December 2017.

⁹ Water tap in expenses and sewer connection expenses are offset by water tap in fees and sewer connection fees.

Non-Operating Revenues (Fiscal Year to Year Comparisons)

Total non-operating revenues were equal to \$3,171,736 as compared to \$3,090,725 for fiscal year 2018, an increase of \$81,011 or 2.6%. This is mainly due to a \$92,216 increase in gain on disposal of equipment related to the insurance reimbursement and funds received for the centrifuge as well as funds received for a boom truck that was sold. Non-operating revenues also included a \$68,979 decrease in tower lease revenue due to two leases that ended in 2017. This was offset by increases of \$37,828 in G.O. property tax revenue, \$10,688 in operations property tax revenue, and \$9,305 in additional interest income.

Departmental Expenses (Fiscal Year to Year Comparisons)

Total departmental expenses have increased \$917,480 or 9.2% compared to fiscal year 2018 (See Table A-5, page 36). For fiscal year 2017, departmental expenses increased \$921,386 or 6.0% compared to fiscal year 2016.

The following departmental expense items increased when compared to the same period last year.

- Payroll and Related expenses increased \$262,163 or 7.1%. This is mainly due to GASB Pension Expense in the amount of \$514,614 posted at fiscal year-end versus the actual amount of contributions of \$307,158, a net difference of \$207,456 compared to last fiscal year.
- Administrative expenses increased by \$92,643 or 11%. This is mainly due to higher bank/bond administration fees associated with the implementation of the new credit card point and pay system. Also, the District had higher computer supplies expense associated with software licensing fees such as the advanced metering infrastructure software and higher than expected other supplies and materials expense.
- Maintenance expenses increased by \$296,191 or 28%. This is due to higher plant maintenance expense associated with the rental expenses of the temporary centrifuge.
- Water tap in expenses increased by \$24,989 or 13% mainly due to new construction and Water Fund approved water connections.¹⁰ Water tap in expenses are offset by water tap in fee revenue.
- Sewer Connection expense increased \$46,974 or 27% mainly due to new construction and Master Sewer Plan approved connections.¹⁰ Sewer connection expenses are offset by sewer connection fee revenue.
- Purchased water expense increased by \$99,187 or 9.7%. Increased water expense is partly related to usage by the temporary centrifuge equipment during fiscal year 2018.
- ASR-1 water expense relates to water that has been drawn out of the ASR well for customer use. ASR water withdrawal expense increased \$5,404 or 2.4%. ASR operating and maintenance expenses also increased by \$1,175 or 2.8%.
- RO plant expenses increased \$22,988 or 3.3% due to some increased maintenance.

¹⁰ Water tap in expenses and sewer connection expenses are offset by water tap in fees and sewer connection fees.

- Professional Fees increased by \$46,383 or 46% mainly due to extra costs associated with a rate study and a RO plant membrane autopsy that was completed.
- Vehicle expense increased by \$20,469 or 23% due increased fuel and maintenance expenses.

The following expenses decreased for fiscal year 2018 when compared to fiscal year 2017.

- Operations expenses slightly decreased \$1,087 or 0.1%.

Non-Operating Expenses (Fiscal Year to Year Comparisons)

Total non-operating expenses were \$1,356,827 as compared to \$1,348,239 for fiscal year 2018, an increase of \$8,588 or 0.6%. Fiscal year 2018 bond issuance costs of \$69,609 were offset by a \$61,022 decrease in interest expense.

TABLE A-5
Hilton Head PSD
Statement of Revenues, Expenses and Changes in Net Position
Year to Date as of June 30, 2018 and June 30, 2017
(With comparative amounts for the same period in prior fiscal year)

	FY 2018 to FY 2017			
	FY 2018	FY 2017	Comparison	
	Actual	Actual	Dollars	%
Operating Revenues			Favorable (Unfavorable)	
Water Service	\$ 6,586,002	\$ 6,680,175	\$ (94,173)	-1.4%
Sewer Service	5,226,965	5,143,168	83,797	1.6%
Tap In Fees - Water	213,517	137,423	76,094	55.4%
Connection Fees - Sewer	229,355	219,483	9,872	4.5%
Service Fees	34,059	29,105	4,954	17.0%
Golf Course Irrigation	175,015	284,937	(109,923)	-38.6%
Availability Fees	491,474	506,930	(15,456)	-3.0%
Disaster recovery, net	115,466	58,691	56,775	N/A
Other Operating Revenues	53,566	28,676	24,890	86.8%
Total Operating Revenues	13,125,419	13,088,588	36,831	0.3%
Departmental Expenses				
Payroll & Related	3,951,862	3,689,699	(262,163)	-7.1%
Administrative Expenses	964,121	871,478	(92,643)	-10.6%
Operations	1,797,278	1,798,365	1,087	0.1%
Maintenance	1,355,604	1,059,412	(296,191)	-28.0%
Water Tap In Expenses	216,109	191,120	(24,989)	-13.1%
Sewer Connection Expense	221,696	174,722	(46,974)	-26.9%
Purchased Water	1,116,669	1,017,482	(99,187)	-9.7%
ASR-1 Water	226,919	221,515	(5,404)	-2.4%
ASR-1 O&M	43,217	42,042	(1,175)	-2.8%
RO Plant O&M	714,136	691,148	(22,988)	-3.3%
Professional Fees	146,084	99,701	(46,383)	-46.5%
Vehicle	108,149	87,680	(20,469)	-23.3%
Total Departmental Expenses	10,861,845	9,944,365	(917,480)	-9.2%
Depreciation	4,733,613	4,576,123	(157,490)	-3.4%
Total Operating Expenses	15,595,458	14,520,488	(1,074,970)	-7.4%
Operating income (loss)	(2,470,039)	(1,431,899)	(1,038,139)	-72.5%
Non-operating revenues				
Property taxes-G.O. Debt Levy	1,441,325	1,403,497	37,828	2.7%
Property taxes-Operations Levy	984,296	973,607	10,688	1.1%
Tower lease	462,986	531,964	(68,979)	-13.0%
Rental Income	79,068	79,115	(47)	-0.1%
Interest earned	108,346	99,041	9,305	9.4%
Gain (Loss) of disposal of equipment	95,716	3,500	92,216	2634.7%
Total Non-operating Revenues	3,171,736	3,090,725	81,011	2.6%
Non-operating Expenses				
Interest expense-Bonds	1,030,789	1,091,811	61,022	5.6%
Bond Defeasance Amortization	256,428	256,428	-	-
Bond Issuance Costs	69,609	-	(69,609)	-
Total Non-operating Expenses	1,356,827	1,348,239	(8,588)	-0.6%
Total Non-operating Revenues/Exp.	1,814,909	1,742,486	72,423	4.2%
Increase (decrease) in net position, before capital contributions	(655,130)	310,587	(965,716)	310.9%
Water Capacity Fee	142,200	208,423	(66,223)	-31.8%
Sewer Capacity Fee	423,472	356,670	(214,470)	-60.1%
Developer Contributions of Systems Assessments	4,476,201	1,769,319	(1,345,847)	-76.1%
Assessments	410,246	-	410,246	-
Total Capital Contributions	5,452,119	2,334,412	3,117,707	133.6%
Change in net position	\$ 4,796,990	\$ 2,644,999	\$ 2,151,991	81.4%
Net position, beginning of the year, as restated	\$ 37,154,881	34,509,882		
Net position, end of year	\$ 41,951,871	\$ 37,154,881		

Water and Sewer Revenues/Expenses: Fiscal Year 2018 vs. Fiscal Year 2017.
(Please reference Table A-6, page 38)

Water Revenues and Related Expenses:

- For FY'18, total water operating revenues have increased \$22,139 or 0.3% compared to FY'17.
- Water departmental expenses increased \$513,018 or 8.9%. Departmental expenses are explained in more detail on pages 34 and 35.
- Water operating loss for fiscal year 2018 is \$1,501,545 compared to the fiscal year 2017 loss of \$937,276. A difference of \$564,800 or 60%.

Sewer Revenues and Related Expenses:

- Total sewer and related operating revenues have increased \$14,691 or 0.2%.
- Sewer departmental expenses increased \$404,462 or 9.7%. Departmental expenses are explained in more detail on page 34 and 35.
- Sewer operating loss for fiscal year 2018 is \$968,495 compared to the fiscal year 2017 loss of \$494,624. A difference of \$473,871 or 96%.

TABLE A-6
Hilton Head PSD
Water vs. Sewer Fiscal Year to Year Comparison Schedule
Year to Date as of June 30, 2018
(With comparative amounts for the same period in prior fiscal year)

			FY 2018 to FY 2017	
	FY 2018	FY 2017	Comparison	
	Actual	Actual	Dollars	%
Operating Revenues				
Water				
Service	\$ 6,586,002	\$ 6,680,175	\$ (94,173)	-1.4%
Tap In Fees	213,517	137,423	76,094	55.4%
Service Fees	17,029	14,553	2,477	17.0%
Availability Fees	98,295	101,386	(3,091)	-3.0%
Disaster recovery, net	57,733	29,346	28,387	N/A
Other Operating Revenues	26,783	14,338	12,445	86.8%
Total Water Operating Revenues	6,999,359	6,977,220	22,139	0.3%
Sewer				
Service	5,226,965	5,143,168	83,797	1.6%
Connection Fees	229,355	219,483	9,872	4.5%
Service Fees	17,029	14,553	2,477	17.0%
Availability Fees	393,179	405,544	(12,364)	-3.0%
Golf Course Irrigation	175,015	284,937	(109,923)	-38.6%
Disaster recovery, net	57,733	29,346	28,387	N/A
Other Operating Revenues	26,783	14,338	12,445	86.8%
Total Sewer Operating Revenues	6,126,060	6,111,369	14,691	0.2%
Total Operating Revenues	13,125,419	13,088,588	36,832	0.3%
Departmental Expenses				
Water				
Payroll & Related	1,817,857	1,697,262	(120,595)	-7.1%
Administrative Expenses	559,190	505,457	(53,733)	-10.6%
Operations	772,829	773,297	468	0.1%
Maintenance	718,470	561,489	(156,981)	-28.0%
Water Tap in Expense	216,109	191,120	(24,989)	-13.1%
Purchased Water	1,116,669	1,017,482	(99,187)	-9.7%
ASR-1 Water	226,919	221,515	(5,404)	-2.4%
ASR-1 O&M	43,217	42,042	(1,175)	-2.8%
RO Plant O&M	714,136	691,148	(22,988)	-3.3%
Professional Fees	59,894	40,877	(19,017)	-46.5%
Vehicle	49,749	40,333	(9,416)	-23.3%
Total Water Departmental Expenses	6,295,040	5,782,022	(513,018)	-8.9%
Sewer				
Payroll & Related	2,134,006	1,992,437	(141,568)	-7.1%
Administrative	404,931	366,021	(38,910)	-10.6%
Operations	1,024,448	1,025,068	620	0.1%
Maintenance	637,134	497,924	(139,210)	-28.0%
Sewer Connection Expense	221,696	174,722	(46,974)	-26.9%
Professional Fees	86,190	58,823	(27,366)	-46.5%
Vehicle	58,401	47,347	(11,054)	-23.3%
Total Sewer Departmental Expense	4,566,805	4,162,343	(404,462)	-9.7%
Operating Expenses before depreciation	10,861,845	9,944,365	(917,479)	-9.2%
Depreciation - Water	2,205,864	2,132,473	(73,390)	-3.4%
Depreciation - Sewer	2,527,750	2,443,650	(84,100)	-3.4%
Total Operating Expenses	15,595,458	14,520,488	(1,074,970)	-1.1%
Water Operating income (loss)	(1,501,545)	(937,276)	(564,269)	-60.2%
Sewer Operating income (loss)	(968,495)	(494,624)	(473,871)	-95.8%
Total Operating income (loss)	(2,470,039)	(1,431,899)	(1,038,139)	-72.5%
Non-operating revenues (expenses), net	1,814,909	1,742,486	72,423	4.2%
Increase (decrease) in net position,				
before capital contributions	(655,130)	310,587	(965,717)	310.9%
Capital Contributions	5,452,119	2,334,412	3,117,707	133.6%
Change in net position	\$ 4,796,990	\$ 2,645,000	\$ 2,151,990	81.4%
Net position, beginning of the year, as restated	37,154,881	34,509,882		
Net position, end of year	\$ 41,951,871	\$ 37,154,881		

CONTACTING THE DISTRICT'S FINANCE MANAGER

This financial report is designed to provide our citizens, customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Finance Manager, P.O. Box 21264, Hilton Head Island, SC 29925. The District's website can be found at www.hhpsd.com.

AUDITED FINANCIAL STATEMENTS

For Fiscal Years Ended June 30, 2018 and June 30, 2017

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2018 AND 2017

	June 30	
	2018	2017
Assets		
Current Assets		
Cash Available for Operations	\$ 4,412,814	\$ 4,460,211
Cash in Banks (Restricted)	1,719,088	1,711,518
Cash Held by Beaufort County Treasurer (Restricted)	706,186	694,702
Accounts Receivable - Trade, net	2,022,730	2,207,040
Disaster Recovery Insurance Receivable	18,610	552,366
Sewer and Capacity Assessments, due within one year	183,994	170,207
Inventory	324,483	307,994
Prepaid Expenses	208,469	197,505
Total current assets	9,596,374	10,301,543
Noncurrent Assets		
Property, Plant and Equipment		
Nondepreciable Assets	1,813,170	2,756,490
Depreciable Assets, net	75,943,488	71,982,109
Total Property, Plant and Equipment	77,756,658	74,738,599
Accounts Receivable, Project SAFE	57,857	41,944
Sewer and Capacity Assessments, due after one year	2,090,994	1,730,234
Other Assets	4,516	3,066
Total Noncurrent Assets	79,910,025	76,513,843
Total Assets	89,506,399	86,815,386
Deferred Outflows of Resources		
Deferred Outflows Related to Pensions	1,167,332	691,435
Deferred Outflows from Refinancing Debt	1,237,445	1,493,873
Total Deferred Outflows of Resources	2,404,777	2,185,308
Total Assets and Deferred Outflows of Resources	\$ 91,911,176	\$ 89,000,694

The accompanying notes are an integral part of these financial statements.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
STATEMENTS OF NET POSITION (continued)
AS OF JUNE 30, 2018 AND 2017

	June 30	
	2018	2017
Liabilities		
Current Liabilities		
Payable from Unrestricted Assets:		
Accounts Payable-Trade	\$ 391,037	\$ 430,983
Accounts Payable-Construction	522,682	444,536
Notes Payable, due within one year	18,000	18,000
Customer Deposits	158,405	153,080
Unearned Revenue	272,802	231,156
Other Accrued Liabilities	407,988	337,944
Total Current Liabilities Payable from Unrestricted Assets	1,770,914	1,615,699
Payable from Restricted Assets:		
Interest Payable	214,855	231,375
Notes Payable, due within one year	507,740	447,733
Bonds Payable, due within one year	3,976,648	3,866,116
Total Current Liabilities Payable from Restricted Assets	4,699,243	4,545,224
Total Current Liabilities	6,470,157	6,160,923
Noncurrent Liabilities		
Bonds Payable, due after one year	29,698,027	33,199,474
Notes Payable, due after one year	8,247,542	7,625,189
Net Pension Liability	5,260,737	4,432,597
Total Noncurrent Liabilities	43,206,306	45,257,260
Total Liabilities	49,676,463	51,418,183
Deferred Inflows of Resources		
Deferred Inflows Related to Pensions	282,842	427,630
Total Liabilities and Deferred Inflows of Resources	49,959,305	51,845,813
Net Position		
Net Investment in Capital Assets	36,023,464	30,631,424
Restricted for Debt Service	2,425,274	2,406,220
Unrestricted	3,503,133	4,117,237
Total Net Position	41,951,871	37,154,881
Total Liabilities, Deferred Inflows of Resources & Net Position	\$ 91,911,176	\$ 89,000,694

The accompanying notes are an integral part of these financial statements.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	Fiscal Year Ended June 30	
	2018	2017
Operating Revenues		
Water Service	\$ 6,586,002	\$ 6,680,175
Sewer Service	5,226,965	5,143,168
Water Tap In Fees	213,517	137,423
Sewer Connection Fees	229,355	219,483
Service Fees	34,059	29,105
Golf Course Irrigation	175,015	284,937
Availability Fees	491,474	506,930
Disaster Recovery, net	115,466	58,691
Other Operating Revenues	53,566	28,676
Total Operating Revenues	13,125,419	13,088,588
Departmental Expenses		
Payroll & Related Expenses	3,951,862	3,689,699
Administrative Expenses	964,121	871,478
Operations Expenses	1,797,278	1,798,365
Maintenance Expenses	1,355,604	1,059,412
Water Tap In Expenses	216,109	191,120
Sewer Connection Expenses	221,696	174,722
Purchased Water	1,116,669	1,017,482
ASR Water Expense	226,919	221,515
ASR Plant Expenses	43,217	42,042
RO Plant Expenses	714,136	691,148
Professional Fees	146,084	99,701
Vehicle Expenses	108,149	87,680
Total Departmental Expenses	10,861,845	9,944,364
Depreciation	4,733,613	4,576,123
Total Operating Expenses	15,595,458	14,520,487
Operating Income (Loss)	(2,470,039)	(1,431,899)
Non-operating Revenues		
Property Taxes - G.O. Debt Levy	1,441,325	1,403,497
Property Taxes - Operations Levy	984,296	973,607
Tower Lease Income	462,986	531,964
Rental Income	79,068	79,115
Interest Income	108,346	99,041
Gain on Disposal of Assets	95,716	3,500
Total Non-operating Revenues	3,171,736	3,090,725
Non-operating Expenses		
Interest Expense	1,030,789	1,091,811
Bond Defeasance Amortization	256,428	256,428
Bond Issuance Costs	69,609	-
Total Non-operating Expenses	1,356,827	1,348,239
Total Non-operating Revenues/Expenses	1,814,909	1,742,486
Increase (Decrease) in Net Position, Before Capital Contributions	\$ (655,130)	\$ 310,587

The accompanying notes are an integral part of these financial statements.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	Fiscal Year Ended June 30	
	2018	2017
Water Capacity Fee	142,200	208,423
Sewer Capacity Fee	423,472	356,670
Developer Contributions of Systems	4,476,201	1,769,319
Assessments	410,246	-
Total Capital Contributions	5,452,119	2,334,412
Change in net position	4,796,990	2,644,999
Net position, beginning of the year	37,154,881	34,509,882
Net position, end of year	\$ 41,951,871	\$ 37,154,881

The accompanying notes are an integral part of these financial statements.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	June 30	
	2018	2017
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 13,130,110	\$ 12,629,597
Cash Paid to Suppliers	(8,016,376)	(7,264,459)
Cash Paid to Employees	(2,636,819)	(2,741,377)
Other Revenues	702,787	87,367
Net Cash Provided by Operating Activities	3,179,703	2,711,128
Cash Flows from Investing Activities		
Interest Income	108,346	99,041
Net Cash Provided by Investing Activities	108,346	99,041
Cash Flows from Noncapital Financing Activities:		
Property Taxes Collected - Operations Levy	984,296	973,607
Rental and Tower Lease Income	583,700	618,925
Sewer Assessments	144,704	122,329
Net Cash Provided by Noncapital Financing Activities	1,712,700	1,714,861
Cash Flows from Capital and Related Financing Activities:		
Capacity Fees	411,072	565,093
Capacity Fee Assessments	45,596	35,644
Property Taxes Collected - G.O. Debt Levy	1,441,325	1,403,497
Interest Paid	(1,055,951)	(1,113,225)
Proceeds from Series 2017 A Bonds	515,000	-
Proceeds from Series 2017 B SRF Note	1,176,023	-
Proceeds from Sale of Assets	125,000	3,500
Bond Issuance Costs	(69,609)	-
Principal Payments on Bonds and Notes	(4,391,905)	(4,224,878)
Purchases of Property, Plant and Equipment	(3,225,643)	(479,577)
Net Cash Used by Capital and Related Financing Activities	(5,029,092)	(3,809,946)
Net Increase (Decrease) in Cash	(28,343)	715,084
Cash and Cash Equivalents at Beginning of Year	\$ 6,866,431	\$ 6,151,347
Cash and Cash Equivalents at End of Year	\$ 6,838,088	\$ 6,866,431

The accompanying notes are an integral part of these financial statements.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	June 30	
	2018	2017
Reconciliation of Operating Loss to Net Cash Provided		
by Operating Activities:		
Operating Loss	\$ (2,470,039)	\$ (1,431,899)
<i>Adjustments to Reconcile Operating Loss to Net Cash Provided</i>		
<i>by Operating Activities:</i>		
Depreciation	4,733,613	4,576,123
Decrease in Allowance for Doubtful Accounts	(17,890)	-
Difference Between GASB 68 and Actual Contributions	207,456	(20,803)
<i>Changes in Assets and Liabilities</i>		
Accounts Receivable - Trade	202,201	(23,607)
Disaster Recovery Insurance Receivable	533,756	(552,366)
Inventories	(16,489)	126,560
Prepaid Assets	(10,964)	(9,114)
Other Assets	(1,450)	-
Accounts Receivable - Project Safe	(15,914)	205,799
Accounts Payable - Trade	(39,946)	(96,948)
Customer Deposits	5,325	(1,450)
Other Accrued Liabilities	70,044	(61,167)
Net Cash Provided by Operating Activities	\$ 3,179,703	\$ 2,711,128

Schedule of Cash and Cash Equivalents

Available for Operations

Demand Deposits (interest and non-interest bearing)	\$ 2,863,164	\$ 4,350,817
Held by Beaufort County Treasurer	1,549,650	109,394
Total Available for Operations	\$ 4,412,814	\$ 4,460,211

Restricted

Cash in Banks	\$ 1,719,088	\$ 1,711,517
Held by Beaufort County Treasurer	706,186	694,702
Total Restricted	\$ 2,425,274	\$ 2,406,219

Total Cash and Cash Equivalents	\$ 6,838,088	\$ 6,866,431
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Supplemental Disclosures

Noncash Financing Activities:

Developer Contribution of Systems	\$ 4,476,201	\$ 1,769,319
Assessments	\$ 410,246	\$ -
Financed Capacity Fees	\$ 154,600	\$ -
Capitalized Interest	\$ 965	\$ -

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 1 - Summary of significant accounting policies

General

The Hilton Head No. 1 Public Service District was established in November of 1969. Its purpose is to provide water and sewer services to the public within designated boundaries.

The financial statements of the District have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

The District has implemented the provisions of GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and thus applied all applicable GASB pronouncements. These GASB statements require the presentation of Management's Discussion and Analysis which precedes the financial statements, in addition to several changes to the financial statements such as: 1) the classification of the equity section of the statement of net position into net position with categories of net investment in capital assets, restricted, and unrestricted; 2) the statement of revenues, expenses and changes in net position formatted to report changes in net position in lieu of changes in retained earnings; and 3) additional note disclosures to the financial statements.

In 2013, the District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* which provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and identifies net position as the residual of all other elements presented in a statement of financial position. GASB defines a *deferred outflow of resources* as a consumption of net position by a government that is applicable to a future reporting period and a *deferred inflow of resources* as an acquisition of net position by a government that is applicable to a future reporting period.

Fund accounting

The accounts of the District are organized on the basis of a proprietary fund type - enterprise fund. The fund is accounted for by a set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, and revenues and expenses. The fund is established to account for water and sewer operations that are financed and operated in a manner similar to private business enterprises, where the intent is to provide goods and services to the general public on a continuing basis, financed and recovered primarily through user charges.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues are charges to customers for sales and services provided to them. The District also recognizes as operating income tap fees, availability fees, and other revenues related to operations. Operating expenses include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 1 - Summary of significant accounting policies (continued)

Net position

Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: net investment in capital assets; restricted for debt service; and unrestricted.

Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds of other restricted cash and investments is excluded from the determination. Restricted for debt service consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates, less any related liabilities. Unrestricted consists of all other net position not included in the above categories.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

Basis of accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund type is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the related liabilities are incurred.

Property taxes and availability charges are recognized when collected by the Beaufort County Treasurer.

Fees and payments due under developer contracts are treated as capital contributions and are recognized in the period received. Tap fees and connection fees are recognized as income in the period the customer connects to the system.

Cash and cash equivalents

The District considers both restricted and unrestricted demand deposits and money market accounts to be cash equivalents. In addition, all highly liquid investments, including repurchase agreements, with original maturities of three months or less from the date of purchase are considered to be cash equivalents.

Accounts receivable, allowance for doubtful accounts and bad debt expense

The District carries accounts receivable at cost less an allowance for doubtful accounts which is based on historical collection experience and approximates 0.356% and 0.5475% of water and sewer revenues for the years ended June 30, 2018 and 2017, respectively. Management charges off to expense any balances that are determined to be uncollectible. At June 30, 2018 and 2017, the balance of the allowance for doubtful accounts was \$42,054 and \$59,944, respectively. Bad debt (recovery) expense for the years ended June 30, 2018 and 2017 was (\$1,322) and \$50,250, respectively.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 1 - Summary of significant accounting policies (continued)

Inventory

Inventory consists of supplies and is recorded at cost on a weighted average cost basis.

Property, plant and equipment

Property, plant and equipment are recorded at cost when constructed or purchased. Assets contributed to the District by developers are capitalized at the developers' cost to construct the water and sewer system. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are recorded at acquisition cost rather than fair value. Betterments and improvements over \$1,000 which extend the useful life of an asset are capitalized and depreciated over their estimated useful life. Depreciation of all property, plant and equipment is provided by the straight-line method and estimated useful lives of assets in service are as follows:

<u>Description</u>	<u>(in years)</u>
Waterworks system	5-50
Sewage disposal system	5-33
Building	40
Sewage treatment facilities	3-40
Transportation equipment	5
Operations furniture and equipment	3-7
Office furniture and equipment	4-10

Repairs and maintenance are charged to expense as incurred. During the period of construction, construction period interest in excess of the interest earned on bond proceeds is capitalized into the project that is being financed from the debt proceeds. Interest capitalized for the years ended June 30, 2018 and 2017 totaled \$965 and \$-0-, respectively.

Bond discount and premium

The 2007 general obligation bonds included two series of bonds, one issued at a premium of \$108,661 and one issued at a discount of \$8,471. The 2010 revenue bonds included two maturities of bonds, one issued at a premium of \$126,097 and one issued at a discount of \$66,931. Sixty-seven percent of the unamortized portion of the premium and discount was written off as a part of deferred outflows of debt refunding when sixty-seven percent of the bonds were refunded in September 2015. The 2010 general obligation bonds included two maturities of bonds, one issued at a premium of \$53,282 and one issued at a discount of \$36,097. The net unamortized bond premium at June 30, 2018 and 2017 was \$63,492 and \$72,133, respectively, which is included as a direct deduction from bonds payable, net of current portion on the statements of net position. Bond discount and premium amortization totaled \$8,641 for the years ended June 30, 2018 and 2017 and is included as a reduction in interest expense on the statements of revenues, expenses and changes in net position.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 1 - Summary of significant accounting policies (continued)

Compensated absences

The District accounts for compensated absences by accruing a liability for future absences according to the guidelines of GASB Statement No. 16, *Accounting for Compensated Absences*, which amounted to \$282,311 and \$286,942 at June 30, 2018 and 2017, respectively.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the South Carolina Retirement System (SCRS) and additions to/deductions from SCRS's fiduciary net position have been determined on the same basis as they are reported by SCRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain accounts and amounts in the June 30, 2017 financial statements have been reclassified in order to conform to the June 30, 2018 presentation.

Date of Management's Review

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through December 13, 2018, the date that the financial statements were available to be issued.

Note 2 – Cash, cash equivalents and investments

At June 30, 2018, the bank balances of unrestricted and restricted accounts totaled \$4,647,528 and had a carrying balance totaling \$4,582,052. A sum of \$200 is held in petty cash funds of the District.

Custodial credit risk is the risk that, in the event of failure of a financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2018, none of the District's deposits or investments were exposed to custodial credit risk. The amounts covered by federal depository insurance (FDIC), invested in money market accounts and collateralized were as follows:

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 2 – Cash, cash equivalents and investments (continued)

	Unrestricted	Restricted under bond covenants	Total
FDIC insured	\$ -	\$ -	\$ -
Collateralized	2,928,440	1,719,088	4,647,528
Balance per bank at June 30, 2018	<u>\$ 2,928,440</u>	<u>\$ 1,719,088</u>	<u>\$ 4,647,528</u>

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized rating organization. The District’s investment policy limits investments to those that are very creditworthy. At June 30, 2018, the District’s investments were all in a Standard and Poor’s AAAM rated money market account that is collateralized by U.S. Treasury obligations. As of June 30, 2018 and 2017, all investments of the District were redeemable on demand without penalty and are, therefore, classified as cash and cash equivalents.

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity’s investment in a single issuer. The District’s investment policy does not address this risk.

Investment Policy

The District’s cash management program seeks to achieve three objectives with regards to investments: safety of principal, adequate liquidity to meet daily cash needs, and a reasonable yield commensurate with the preservation of principal and liquidity. The following investment strategy has been designed to accomplish these objectives:

1. The District will invest in very creditworthy, highly liquid investments with maturities of one year or less and in intermediate-term securities of high credit quality with maturities no greater than five years. The District will only invest in those securities specified under South Carolina Code Section 6-5-10. These include collateralized money market accounts and certificates of deposits, U.S. Treasury Bills and Notes, high quality obligations of certain U.S. agencies and instrumentalities, and the local government investment pool.
2. The primary objective of all District investment activity is the preservation of capital and safety of principal. Each investment transaction shall ensure that capital losses are avoided, whether from security default, sale of instruments prior to maturity or erosion of market value.
3. At all times, the District shall remain sufficiently liquid to meet cash flow requirements by matching investment maturities with forecasted cash flow requirements, investing in securities with active secondary markets, and maintaining appropriate portfolio diversification.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 2 – Cash, cash equivalents and investments (continued)

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. There may be times when the District has more or less of its funds in particular investment vehicles due to cash flow needs, prevailing market conditions, and other factors. Analyzing monthly financial reports in conjunction with prevailing market conditions serve as a general guideline for making investment decisions. In this way, the portfolio will be able to take advantage of rising interest rates by re-investing maturing securities at higher yields. In falling rate environments, it will profit from having investments that were made at higher rates. Following this discipline ensures that the District will always have sufficient cash available for daily needs, preserve its principal, and earn a competitive yield without assuming unacceptable risks.

Note 3 - Cash held by the Beaufort County Treasurer

Cash held by the Beaufort County Treasurer (the Treasurer) includes the remaining proceeds of the general obligation bond issues, property tax collections and interest earned on monies held by the Treasurer. The deposits are a pool of funds invested by the pool for the entities which receive property taxes from the Treasurer. As such, collateral is not identified for each deposit, but rather for the fund as a whole. The pool is not rated. These deposits are collateralized by cash or governmental agency securities, which are fully guaranteed as to principal and interest by the federal government. Additional information on Beaufort County’s cash and investment policies and holdings can be found in their annual financial report which is available at www.bcgov.net. The funds will be used as follows:

	As of June 30,	
	2018	2017
Unrestricted cash - Available for general operating purposes	\$ 1,549,650	\$ 109,394
Restricted cash - Bond principal retirement and interest payments	706,186	694,702
	\$ 2,255,836	\$ 804,096

Note 4 - Accounts receivable

Current trade accounts receivable include the following as of June 30:

	2018	2017
Receivables from customers, Net	\$ 1,026,738	\$ 1,262,735
Unbilled receivables from customers	515,768	462,616
Other receivables	480,224	481,689
	\$ 2,022,730	\$ 2,207,040

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 4 - Accounts receivable (continued)

Long term Project SAFE accounts receivable represent amounts due from the Community Foundation of the Lowcountry (CFLC) which operates a program called Project SAFE that provides grants for low and moderate income homeowners to connect to the public sewer system. The District provides funding to the CFLC in the form of Bucks for a Better Island, a program that rounds up customer bills to the next highest dollar. The District expects repayment in full on these receivables and has classified them as non-current as there are no set repayment terms.

Note 5 - Property, plant, equipment and depreciation

Capital asset activity during the year ended June 30, 2018 and 2017 was as follows:

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>June 30, 2018</u>
<u>Capital assets not being depreciated:</u>					
Land	\$ 1,299,194	\$ -	\$ -	-	\$ 1,299,194
Construction in progress	<u>1,457,296</u>	<u>7,374,488</u>	<u>-</u>	<u>(8,317,810)</u>	<u>513,974</u>
Total capital assets not being depreciated	<u>2,756,490</u>	<u>7,374,488</u>	<u>-</u>	<u>(8,317,810)</u>	<u>1,813,168</u>
<u>Capital assets being depreciated:</u>					
Waterworks system	62,618,555	38,900	(295,133)	184,141	62,546,463
Sewage disposal system	40,891,189	77,950	(366,327)	8,133,669	48,736,481
Buildings	4,339,091	-	-	-	4,339,091
Sewage treatment facilities	34,727,539	20,083	(410,019)	-	34,337,603
Transportation equipment	1,170,786	229,691	(117,544)	-	1,282,929
Operations furniture and equipment	2,076,252	39,844	(78,575)	-	2,037,521
Office furniture and equipment	<u>778,553</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>778,553</u>
Total capital assets being depreciated	<u>146,601,965</u>	<u>406,468</u>	<u>(1,267,598)</u>	<u>8,317,810</u>	<u>154,058,641</u>
<u>Less accumulated depreciation for:</u>					
Waterworks system	(30,564,067)	(2,128,131)	295,133	-	(32,397,065)
Sewage disposal system	(16,213,258)	(1,546,276)	349,822	-	(17,409,712)
Buildings	(1,987,930)	(112,863)	-	-	(2,100,793)
Sewage treatment facilities	(22,747,717)	(739,556)	410,019	-	(23,077,254)
Transportation equipment	(928,614)	(90,180)	117,544	-	(901,250)
Operations furniture and equipment	(1,530,604)	(78,358)	65,795	-	(1,543,167)
Office furniture and equipment	<u>(647,666)</u>	<u>(38,247)</u>	<u>-</u>	<u>-</u>	<u>(685,913)</u>
Total accumulated depreciation	<u>(74,619,856)</u>	<u>(4,733,613)</u>	<u>1,238,313</u>	<u>-</u>	<u>(78,115,155)</u>
Total assets being depreciated	<u>71,982,109</u>	<u>(4,327,145)</u>	<u>(29,285)</u>	<u>8,317,810</u>	<u>75,943,490</u>
Year End Totals	<u>\$ 74,738,599</u>	<u>\$ 3,047,343</u>	<u>\$ (29,285)</u>	<u>\$ -</u>	<u>\$ 77,756,658</u>

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 5 - Property, plant, equipment and depreciation (continued)

	June 30, 2016	Additions	Disposals	Transfers	June 30, 2017
<u>Capital assets not being depreciated:</u>					
Land	\$ 1,299,194	\$ -	\$ -	-	\$ 1,299,194
Construction in progress	<u>785,002</u>	<u>2,356,805</u>	<u>-</u>	<u>(1,684,511)</u>	<u>1,457,296</u>
Total capital assets not being depreciated	<u>2,084,196</u>	<u>2,356,805</u>	<u>-</u>	<u>(1,684,511)</u>	<u>2,756,490</u>
<u>Capital assets being depreciated:</u>					
Waterworks system	62,262,580	-	(60,706)	416,681	62,618,555
Sewage disposal system	39,645,717	-	(22,358)	1,267,830	40,891,189
Buildings	4,339,091	-	-	-	4,339,091
Sewage treatment facilities	34,727,539	-	-	-	34,727,539
Transportation equipment	1,098,157	97,629	(25,000)	-	1,170,786
Operations furniture and equipment	2,198,499	-	(122,247)	-	2,076,252
Office furniture and equipment	<u>776,042</u>	<u>17,159</u>	<u>(14,648)</u>	<u>-</u>	<u>778,553</u>
Total capital assets being depreciated	<u>145,047,625</u>	<u>114,788</u>	<u>(244,959)</u>	<u>1,684,511</u>	<u>146,601,965</u>
<u>Less accumulated depreciation for:</u>					
Waterworks system	(28,517,712)	(2,107,061)	60,706	-	(30,564,067)
Sewage disposal system	(14,814,393)	(1,421,223)	22,358	-	(16,213,258)
Buildings	(1,875,067)	(112,863)	-	-	(1,987,930)
Sewage treatment facilities	(22,009,049)	(738,668)	-	-	(22,747,717)
Transportation equipment	(883,744)	(69,870)	25,000	-	(928,614)
Operations furniture and equipment	(1,562,826)	(90,025)	122,247	-	(1,530,604)
Office furniture and equipment	<u>(625,901)</u>	<u>(36,413)</u>	<u>14,648</u>	<u>-</u>	<u>(647,666)</u>
Total accumulated depreciation	<u>(70,288,692)</u>	<u>(4,576,123)</u>	<u>244,959</u>	<u>-</u>	<u>(74,619,856)</u>
Total assets being depreciated	<u>74,758,933</u>	<u>(4,461,335)</u>	<u>-</u>	<u>1,684,511</u>	<u>71,982,109</u>
Year End Totals	<u>\$ 76,843,129</u>	<u>\$ (2,104,530)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,738,599</u>

Depreciation expense for the years ended June 30, 2018 and 2017 was \$4,733,613 and \$4,576,123, respectively. Transfers relate to construction in progress completed during the year

Note 6 – Long-term obligations

The District has financed its acquisitions of property, plant and equipment through bond issuances and notes payable as follows:

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 6 – Long-term obligations (continued)

Notes payable – Revenue/Other

The District is obligated under a note dated November 30, 1988, with a balance of \$79,939 and \$97,939 at June 30, 2018 and 2017, respectively, payable to the South Carolina Jobs-Economic Authority (Authority). The proceeds of the note were for expansion of water lines within the District. The note is without interest, payable at \$1,500 per month. Since this obligation was acquired pursuant to the purchase of an existing utility system, the Authority may have the right to renegotiate the terms of the note, including the interest rate and maturity date. This note is not part of parity debt and is excluded from the debt coverage calculation.

On July 23, 2014, the District signed a promissory note to the South Carolina Water Quality Revolving Fund Authority. The total proceeds from this note were \$2,921,430. Proceeds were used to defray the costs of installing and implementing an Advanced Meter Reading Infrastructure. The note bears interest at a rate of 1.00% per annum. Principal and interest of \$40,337 are payable quarterly beginning April 1, 2016 through January 1, 2036. The loan had a balance of \$2,621,140 and \$2,755,435 at June 30, 2018 and 2017, respectively. The notes are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues.

On August 23, 2017, the District signed a promissory note to the South Carolina Water Quality Revolving Fund Authority. The total proceeds from this note were \$1,287,051. Proceeds are to be used to defray the cost of certain improvements to its wastewater system. The improvements consist of (i) pump station construction and upgrades; and (ii) installation of related improvements and appurtenances (collectively, the "Project"). The note bears interest at a rate of 1.90% per annum. Eighty quarterly principal and interest payments of \$19,376 will be due beginning March 1, 2018. During the year ended June 30, 2018, draws of \$1,176,988 were taken on this loan. One final draw of \$110,064 was taken on this loan after June 30, 2018. The loan had a balance of \$1,148,093 at June 30, 2018. The notes are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues.

Notes payable – General Obligation

On April 14, 2008 the District executed a loan with the South Carolina State Infrastructure Revolving Loan Fund (SIRF) in the amount of \$481,080 at an interest rate of 3.50% per annum. The proceeds of this loan were used only to pay the costs of constructing new water wells. Principal and interest of \$8,387 are payable quarterly beginning January 1, 2009 through October 1, 2028. The SIRF loan balance outstanding at June 30, 2018 and 2017 amounted to \$287,900 and \$310,867, respectively. The notes are backed by general obligation debt.

On October 3, 2008, the District finalized a State Revolving Fund (SRF) loan in the amount of \$2,887,826 at an interest rate of 3.0% per annum. These funds were used as part of the financing for the new reverse osmosis plant. Principal and interest of \$48,135 were payable quarterly beginning January 1, 2009 through October 1, 2011. Effective November 21, 2011, the interest rate was reduced to 2.25% resulting in reduced principal and interest payments of \$45,350 to be paid quarterly from January 1, 2012 through October 1, 2028. The SRF loan balance outstanding at June 30, 2018 and 2017 amounted to \$1,656,397 and \$1,798,525, respectively. The notes are backed by general obligation debt.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 6 – Long-term obligations (continued)

Notes payable – General Obligation (continued)

On September 10, 2014, the District signed a promissory note to the South Carolina Water Quality Revolving Fund Authority. The total proceeds from this note were \$3,451,303. Proceeds were used to defray the cost expanding the existing Reverse Osmosis Treatment Facility, installing an additional booster pump station, and relocating a major water line within the district. The note bears interest at a rate of 2.00% per annum. Five quarterly principal and interest payments of \$56,989 were due beginning May 1, 2015, one quarterly principal and interest payment of \$29,753 was due on August 1, 2016, and seventy-four quarterly principal and interest payments of \$52,450 are due beginning on November 1, 2016. The balance outstanding at June 30, 2018 and 2017 was \$2,979,813 and \$3,128,156, respectively. The notes are backed by general obligation debt.

Bonds payable - Revenue

On August 24, 2010, the District issued \$3,400,000 of series 2010B revenue bonds. Proceeds were to be used to defray the costs of system improvements. Interest on the bonds is payable semi-annually beginning December 1, 2010 at varying interest rates of between 2.00% and 4.00% per annum. Principal payments on the bonds were due annually beginning December 1, 2011 through December 1, 2029. The bonds are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. On September 3, 2015, sixty-seven percent of outstanding balance of \$2,865,000 of these bonds, \$1,920,000, was refunded through the issuance of Series 2015 A and B revenue bonds. Principal payments on the remaining balance of \$945,000 are due annually beginning on December 1, 2016 through December 1, 2020 and interest payments remain payable semi-annually through December 1, 2020. The interest rate on the remaining bonds is 4.00% per annum. The 2010 revenue bonds outstanding at June 30, 2018 and 2017 amounted to \$500,000 and \$655,000, respectively.

On November 29, 2012, the District issued \$12,275,000 of series 2012A refunding revenue bonds. Proceeds were used to refunding the series 2004 revenue bonds which refunded the 1995 revenue bonds and all of the callable maturities of the 1996 revenue bonds. Interest on the bonds is payable semi-annually at interest rates of between 0.542% and 2.839% per annum. Principal payments are due annually on August 1st of each year beginning in 2013 and continuing through 2024. The notes are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The 2012A revenue bonds outstanding amounted to \$6,220,000 and \$7,255,000 at June 30, 2018 and 2017, respectively.

On November 29, 2012, the District issued \$815,000 of series 2012B revenue bonds. Proceeds were used to defray the costs of system improvements. The series 2012B bond bears interest at a rate of 2.15% per annum. Interest only payments are due semi-annually from February 1, 2013 through August 1, 2024. The principal balance is due in full on August 1, 2024. The bonds are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The 2012B revenue bonds outstanding amounted to \$815,000 at June 30, 2018 and 2017.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
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JUNE 30, 2018 AND 2017

Note 6 – Long-term obligations (continued)

Bonds payable - Revenue (continued)

On April 23, 2014, the District issued \$282,294 of Series 2014A revenue bonds as a bank loan for purposes of funding sewer connections in certain previously unserved areas of the District. The bonds are an obligation of the District, bear interest at the rate of 3.42% and are payable in annual principal and interest payments of \$24,371 through April 2029. The bonds will be repaid by annual assessments to the owners in the areas that were connected over a 20 year period and will be collected by the county treasurer. The 2014A revenue bonds outstanding amounted to \$220,339 and \$236,617 at June 30, 2018 and 2017, respectively

On September 3, 2015, the District issued \$19,846,000 of Series A refunding revenue bonds and \$2,721,000 of Series B refunding revenue bonds as bank loans. Proceeds were used to refund the series 2006 refunding revenue bonds, series 2007 revenue bonds, series 2009A revenue bonds, series 2010A refunding revenue bonds, series 2011 revenue bonds, series 2011B refunding revenue bonds, and sixty seven percent of the outstanding 2010B revenue bonds. The bonds are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The series 2015A bonds bear interest at a rate of 1.93% per annum and principal and interest payments are due semi-annually beginning in December 2015 and continuing until June 2025. The 2015A revenue bonds outstanding amounted to \$15,351,000 and \$17,236,000 at June 30, 2018 and 2017, respectively. The series 2015B bonds bear interest at a rate of 2.29% per annum and principal and interest payments are due semi-annually beginning in December 2015 and continuing until December 2029. The 2015B revenue bonds outstanding amounted to \$2,488,000 and \$2,573,000 at June 30, 2018 and 2017, respectively.

On August 21, 2017, the District issued \$515,000 of Series 2017A revenue bonds as a bank loan for purposes of funding sewer connections in certain previously unserved areas of the District. Interest on the bonds is payable semi-annually at 2.69% per annum. Principal payments are due annually on June 1st of each year beginning in 2018 and continuing through 2032. The bonds will be repaid by annual assessments to the owners in the areas that were connected over a 20 year period and will be collected by the county treasurer. The 2017A revenue bonds outstanding amounted to \$483,842 at June 30, 2018.

Bonds payable – General Obligation

In July 2009, the District issued \$1,781,694 of general obligation bonds as a bank loan. Proceeds were to be used to defray the cost of constructing, furnishing and equipping a new water well and reverse osmosis plant. The bonds bear interest at a rate of 4.219% per annum. The first payment of principal and interest in the amount of \$159,413 was due March 1, 2010. Fourteen additional payments of principal and interest of \$160,040 are payable on March 1st of each year beginning in 2011 and continuing until 2024. The 2009 general obligation bonds outstanding amounted to \$833,002 and \$952,840 at June 30, 2018 and 2017, respectively. The bonds are backed by general obligation debt.

On October 3, 2007, the District issued \$7,350,000 of general obligation bonds. Proceeds were to be used to defray the cost of constructing, furnishing and equipping a new water well and reverse osmosis plant.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 6 – Long-term obligations (continued)

Bonds payable – General Obligation (continued)

Interest on the bonds is payable semi-annually beginning March 1, 2008 at varying interest rates of between 4.50% and 4.00% per annum. Principal payments on the bonds are due annually beginning March 1, 2009 through March 1, 2027. The 2007 general obligation bonds outstanding amounted to \$4,155,000 and \$4,535,000 at June 30, 2018 and 2017, respectively. The bonds are backed by general obligation debt.

On September 28, 2010 the District issued \$3,970,000 of general obligation bonds. Proceeds were to be used to defray the cost of constructing, furnishing and equipping a new Aquifer Storage and Recovery well. Interest on the bonds is payable semi-annually beginning March 1, 2011 at varying interest rates of between 2.00% and 3.375% per annum. Principal payments on the bonds are due annually beginning March 1, 2011 through March 1, 2029. The 2010 general obligation bonds outstanding amounted to \$2,545,000 and \$2,735,000 at June 30, 2018 and 2017, respectively. The bonds are backed by general obligation debt.

Maturities, debt service costs, and varying interest rates of bonds and notes payable are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	4,502,388	\$ 970,949	\$ 5,473,337
2020	4,607,902	869,467	5,477,369
2021	4,725,574	760,496	5,486,070
2022	4,836,720	655,767	5,492,487
2023	4,955,202	546,278	5,501,480
2024 - 2028	14,662,043	1,165,084	15,827,127
2029 - 2033	3,074,155	212,291	3,286,446
2034 - 2036	1,130,545	29,070	1,159,615
Grand Total	42,494,529	<u>\$ 5,209,403</u>	<u>\$ 47,703,932</u>
Less: 2017 SRF Final Draw Received in FY 2019	<u>(110,064)</u>		
	<u>\$ 42,384,465</u>		

<u>For those bonds due June 30,</u>	<u>General Obligation bonds dated Oct. 3, 2007</u>	<u>General Obligation bonds dated Sept. 28, 2010</u>	<u>2012A Revenue bonds dated Nov. 29, 2012</u>
2019	4.000%	3.000%	1.667%
2020 - 2023	4.000%	3.000%	1.917%
2024	4.000%	3.000%	2.339%
2025	4.000%	3.000%	2.839%
2026 - 2027	4.000%	3.125%	
2028	4.000%	3.250%	

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JUNE 30, 2018 AND 2017

Note 7 – Non-current liabilities

The non-current liability activity during fiscal years 2018 and 2017 was as follows:

	June 30, 2017	Additions	Reductions	June 30, 2018	Amounts due within one year
Revenue bonds	\$ 28,770,617	\$ 515,000	\$ (3,207,436)	\$ 26,078,181	\$ 3,266,753
GO bonds	8,222,840	-	(689,839)	7,533,001	709,895
Notes payable - GO debt	5,237,548	-	(313,438)	4,924,110	320,467
Notes payable - Revenue/other	2,853,374	1,176,988	(181,190)	3,849,172	205,273
Bond discount/premium	72,133	-	(8,641)	63,492	-
Net pension liability	4,432,597	828,141	-	5,260,738	-
Subtotal	\$ 49,589,109	\$ 2,520,129	\$ (4,400,544)	\$ 47,708,694	\$ 4,502,388
Less current portion	(4,331,849)	-	-	(4,502,388)	-
Noncurrent liabilities	<u>\$ 45,257,260</u>	-	-	<u>\$ 43,206,306</u>	-

	June 30, 2016	Additions	Reductions	June 30, 2017	Amounts due within one year
Revenue bonds	\$ 31,888,358	-	\$ (3,117,741)	\$ 28,770,617	\$ 3,176,278
GO bonds	8,887,829	-	(664,989)	8,222,840	689,838
Notes payable - GO debt	5,528,734	-	(291,186)	5,237,548	313,438
Notes payable - Revenue/other	3,004,336	-	(150,962)	2,853,374	152,295
Bond discount/premium	80,774	-	(8,641)	72,133	-
Net pension liability	4,437,923	-	(5,326)	4,432,597	-
Subtotal	\$ 53,827,954	-	\$ (4,238,845)	\$ 49,589,109	\$ 4,331,849
Less current portion	(4,224,875)	-	-	(4,331,849)	-
Noncurrent liabilities	<u>\$ 49,603,079</u>	-	-	<u>\$ 45,257,260</u>	-

Note 8 – Deferred amount on refunding

In November 2012, the District issued revenue bonds amounting to \$12,275,000 with varying interest rates to advance refund series 2004 revenue bonds amounting to \$17,575,000 which had varying interest rates and a balance of \$11,740,000 at the time of the refunding. The 2004 bonds previously refunded revenue bonds totaling \$18,110,000. The 2004 revenue bonds were set to mature in 2021. The proceeds of the new revenue bond issue were used to purchase funds within an irrevocable trust with an escrow agent to provide debt service payments on the previously existing debt issues. The 2012A advance refunding met the requirements of an in-substance debt defeasance, and those bonds were removed from the books of the District. As a result of the advance refunding, the District reduced its total debt service requirements by \$527,149, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$206,473. The District is amortizing the deferred amount on early retirement of \$1,240,395 over the 8.33 year remaining life of the refunded bonds. The unamortized balance at June 30, 2018 and 2017 was \$409,330 and \$558,178, respectively.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 8 – Deferred amount on refunding (continued)

In September 2015, the District issued series 2015A revenue bonds amounting to \$19,846,000 with a 1.93% interest rate to advance refund \$15,725,000 of the \$18,770,000 series 2006 refunding revenue bonds which had varying interest rates and a maturity of December 2023, \$241,168 of the \$335,902 series 2009A revenue bonds which had an interest rate of 4.55% and a maturity date of July 2024, \$104,168 of the \$190,722 series 2010A revenue bonds which had an interest rate of 3.85% and a maturity date of May 2020, \$205,000 of the \$3,400,000 series 2010B revenue bonds which had an interest rate of 4.00% and a maturity date of December 2024, and \$3,807,737 of the \$6,003,544 series 2011B revenue bonds which had an interest rate of 2.89% and a maturity date of August 2021. The proceeds of the new revenue bond issue were used to purchase funds within an irrevocable trust with an escrow agent to provide debt service payments on the previously existing debt issues. The 2015A advance refunding met the requirements of an in-substance debt defeasance, and those bonds were removed from the books of the District. As a result of the advance refunding, the District reduced its total debt service requirements by \$1,814,453, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$1,718,876. The District is amortizing the deferred amount on early retirement of \$866,883 over the 9.75 year life of the refunded bonds. The unamortized balance at June 30, 2018 and 2017 was \$614,969 and \$703,879, respectively.

In September 2015, the District issued series 2015B revenue bonds amounting to \$2,721,000 with a 2.29% interest rate to advance refund \$646,524 of the \$930,000 series 2007 revenue bonds which had an interest rate of 4.22% and a maturity of June 2027, \$1,715,000 of the \$3,400,000 series 2010B revenue bonds which had varying interest rates and a maturity date of December 2029, and \$302,444 of the \$384,000 series 2011 revenue bonds which had an interest rate of 3.91% and a maturity date of April 2026. The proceeds of the new revenue bond issue were used to purchase funds within an irrevocable trust with an escrow agent to provide debt service payments on the previously existing debt issues. The 2015B advance refunding met the requirements of an in-substance debt defeasance, and those bonds were removed from the books of the District. As a result of the advance refunding, the District reduced its total debt service requirements by \$336,864, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$298,448. The District is amortizing the deferred amount on early retirement of \$266,044 over the 14.25 year life of the refunded bonds. The unamortized balance at June 30, 2018 and 2017 was \$213,146 and \$231,816, respectively.

Note 9 – Restricted Assets

A reserve fund for debt service is mandated by bond covenants. At June 30, 2018 and 2017, the debt service reserves totaled \$2,425,274 and \$2,406,220, respectively. The District also holds funds, as mandated by bond covenants, for operation and maintenance, and depreciation and contingencies. The operating and maintenance fund is intended to provide for the payment of the operations and maintenance expenses. The depreciation and contingency fund is intended to provide a reasonable reserve for the depreciation of the system, for contingencies and for improvements, betterment and extensions of the system.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 10 - Lease arrangements

The District is currently leasing office space, land use and space on its water tower facilities to various cellular phone companies for attachment of antennae. Original lease terms range from one to five year periods, with renewal options. Rental income in connection with these leases was \$542,054 and \$592,140 for the years ended June 30, 2018 and 2017, respectively. The future minimum lease income is as follows:

Years ended	Amount
June 30,	Amount
2019	\$ 353,397
2020	142,682
2021	131,645
2022	57,314
2023	3,966
Thereafter	-
Total	<u>\$ 689,004</u>

Note 11 - Economic dependence

The District has a service area that is located within the geographic boundaries of Hilton Head Island, South Carolina. A change in the overall economic conditions of this geographic area may have a significant influence upon the operating results of the District.

Note 12 – Disaster Recovery / Insurance recoveries

The District records insurance recoveries as an offset to the related expense. During the year ended June 30, 2018, the District received \$69,000 of insurance recoveries related to a centrifuge fire. The District sold the damaged equipment to a third party for \$46,000. The historical cost of the equipment that was damaged was \$500,950 with a carrying book value of \$29,284. The insurance proceeds of \$69,000 and sale proceeds of \$46,000 were netted against the book carrying value resulting in a gain of \$85,716 which is reported as a part of the gain on the sale of fixed assets in the statement of revenues, expenses and changes in net position. During the year ended June 30, 2018 and 2017, \$1,391 and \$517, respectively, was received for other non-hurricane related insurance recoveries which were offset against the related repair expense.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 12 – Disaster Recovery / Insurance recoveries (continued)

In October 2016, Hurricane Matthew made landfall in the District's service area and caused damage to the District's property and systems. During the year ended June 30, 2017, the District received \$568,146 for insurance recoveries and FEMA reimbursement related to expenses incurred as a result of the hurricane attributable to the year ended June 30, 2017. Of this amount, \$224,897 was received for expenses that were not directly identifiable such as administrative and maintenance payroll related to storm recovery and claim administration as well as per diem payments for usage of District equipment in clean-up efforts. The remaining \$343,249 was reimbursement for direct expenses incurred. The District incurred an additional \$166,205 of direct expenses during the year ended June 30, 2017, including professional fees related to claim submission, for which it had not yet received reimbursement as of the date of the prior report. Although the District expected reimbursement for a portion of these expenses, an estimate of the amount of reimbursement to be received could not be estimated as of the date of the prior report. Given that uncertainty, in accordance with generally accepted accounting principles, no accrual was recorded for those items. During the year ended June 30, 2018, the District received \$41,025 of additional reimbursements related to Hurricane Matthew which are reported as a part of disaster recovery income on the statement of revenues, expenses, and changes in net position. The District is still in the appeal process. Additional funds may be received but the amount cannot be reasonably estimated.

As discussed above, during the year ended June 30, 2017 the district incurred total direct costs for clean up and repairs to property, system, and landscaping as well as professional fees totaling \$509,454. These costs were netted against the reimbursements of \$568,146 which resulted in disaster recovery income of \$58,691 on the statement of revenues, expenses, and changes in net position. Of the total insurance proceeds received as of the date of the prior report, \$552,366 was received after year end and was reported as an insurance receivable on the statement of net position for the year ended June 30, 2017. Management evaluated the District's property, plant, and equipment after the storm and none of the required repairs were considered significant enough to trigger an impairment loss on any of the district's assets.

On September 11, 2017, Tropical Storm Irma moved up the coast of South Carolina. Hilton Head Island received tropical storm wind gusts of 48 mph or higher and the rainfall around 7 inches. There were no damages to insured assets. The District was approved for \$74,441 of FEMA assistance for expenses that were not directly identifiable such as administrative and maintenance payroll related to storm preparation and claim administration as well as per diem payments for usage of District equipment in preparation efforts. Accordingly, this amount has been included in disaster recovery income on the statement of revenues, expenses, and changes in net position for the year ended June 30, 2018. Of the total approved amount, \$18,610 was received after year end and, accordingly, is reported as an insurance receivable on the statement of net position as of June 30, 2018.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 13 - Construction and development commitments

Policy

The District has financed a portion of its expansion through direct charges to developers and through governmental grants. Developers basically install the systems within a given area and/or contribute toward treatment plant or water production facilities in exchange for a portion of the capacity. All systems contributed must be approved by the District and are contributed, generally without cost to the District, once they are completed and acceptable for use.

Regulatory mandates

The District, as well as some other water authorities on Hilton Head Island, South Carolina, has entered into contracts for additional water supply sources to meet its future needs due to restrictions placed on the District by the South Carolina Department of Health and Environmental Control. The restrictions and contract for water supply have a significant financial impact on the District. During the years ended June 30, 1998 and June 30, 2003, the District signed agreements with Beaufort-Jasper Water & Sewer Authority (BJWSA) to provide an additional water supply for the District's service area. Since completion of the water supply construction, the District is required under the agreement to purchase a minimum amount of water per day, based upon BJWSA's operation and maintenance cost for providing the water. Purchases from BJWSA amounted to \$1,332,700 and \$1,235,134 for the years ended June 30, 2018 and 2017, respectively, of which \$216,031 and \$217,652, respectively, were injected into the ASR system.

Expansion

As part of an overall funding plan for expansion of the District's present facilities, the District has entered into various contracts with developers and others. Under these contracts, contributions of capital assets valued at \$4,476,201 and \$1,769,319 and payments of capacity fees totaling \$565,672 and \$565,093 were collected during the fiscal years ended June 30, 2018 and 2017, respectively. All developer contract commitments entered into prior to the current expansion program have been substantially met. The District extended its boundaries to include those undeveloped areas on the northern part of the island under developer contracts. The cost of expansion is allocated to the developers based upon capacity requested. The infrastructure necessary to connect or serve the developers' property will be constructed by the developers and contributed to the District at no cost to the District. In 2017, the District entered into an agreement with the Town of Hilton Head Island whereby the Town will reimburse the District up to \$5,606,315 for the engineering and construction costs related to the first two years of the District's Master Sewer Plan Document which lays out a five year plan to connect substantially all previously unserved areas to the sewer system. Reimbursements of \$4,476,201 and \$963,585 were received during the years ended June 30, 2018 and 2017, respectively, and are included as part of the developer contributions of capital assets disclosed above.

Construction commitments

The District had outstanding construction contract commitments of \$-0- and \$5,390,320 at June 30, 2018 and 2017, respectively.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 14 - Sewer assessments

The District has constructed various sewer collection systems, the cost of which is to be repaid by annual sewer assessments collected by the Beaufort County treasurer from the property owners that benefited from these systems. These assessments are being collected annually and are expected to be paid in full beginning 2016 through 2038. Assessments receivable totaled \$2,274,988 and \$1,900,441 as of June 30, 2018 and 2017, respectively. A portion of the annual receipts is recognized as interest income each year. For the years ended June 30, 2018 and 2017, \$76,524 and \$80,002, respectively, of the assessments collected was recognized as interest income.

Note 15 - Deferred compensation plans

Section 457/401(k) Plan

In April 2004, the District reactivated its Internal Revenue Code Section 457 retirement plan. All persons employed by the District on March 31, 2004 became eligible employees. In May 2012, the District also adopted a 401(k) Plan option. Under the Plan, all participants may make an elective deferral up to 100% of their annual compensation subject to Internal Revenue Code maximum contribution limitations. The District makes a 6% matching contribution to each eligible participant's account who has not chosen to also participate in the South Carolina Retirement Plan. Employee contributions for the years ended June 30, 2018 and 2017 were \$133,066 and \$149,259, respectively. The matching contribution for the years ended June 30, 2018 and 2017 was \$10,385 and \$11,272, respectively. Participants are immediately vested in all contributions and earnings thereon.

South Carolina Retirement System

Effective April 2004, the District joined the South Carolina Retirement System (SCRS).

General Information about the Pension Plan

Plan Description. SCRS is a cost-sharing multiple-employer defined benefit pension plan administered by the South Carolina Public Employee Benefit Authority (PEBA) that was established effective July 1, 1945 pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public school districts, and political subdivisions that elect participation. PEBA issues a publicly available financial report that can be obtained at www.peba.sc.gov.

Membership. Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. As a condition of employment, all employees are required to become members of the SCRS. However, employees who worked for the District on the date of its admission into the Retirement System could elect non-membership within six-months. An employee member of the system with an effective date of membership prior to July 1, 2012 is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 15 - Deferred compensation plans (Continued)

General Information about the Pension Plan (Continued)

Benefits Provided. Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation. A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

Contributions. Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase the SCRS employer and employee contribution rates on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS. An increase in the contribution rates adopted by the board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year. If the most recent annual actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than ninety percent, then the board, effective on the following July first, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than ninety percent. Any decrease in contribution rates must maintain the 2.9 and 5 percent differentials between the SCRS and PORS employer and employee contribution rates respectively. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the system shows a funded ratio of less than ninety percent, then effective on the following July first, and annually thereafter as necessary, the board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than 90 percent. The Retirement System Funding and Administration Act increases employer contribution rates to 13.56 percent for SCRS and 16.24 percent for PORS, effective July 1, 2017. It also removes the 2.9 percent and 5 percent differential and

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 15 - Deferred compensation plans (Continued)

General Information about the Pension Plan (Continued)

Contributions (continued)

increases and establishes a ceiling on employee contribution rates at 9 percent and 9.75 percent for SCRS and PORS respectively. The employer contribution rates will continue to increase annually by 1 percent through July 1, 2022. The legislation's ultimate scheduled employer rate is 18.56 percent for SCRS and 21.24 percent for PORS. The amortization period is scheduled to be reduced one year for each of the next 10 years to a twenty year amortization schedule. The recent pension reform legislation also changes the long term funded ratio requirement from ninety to eighty-five.

Required employee contribution rates for the years ended June 30, 2018 and 2017 were 9.00% and 8.66%, respectively. Required employer contribution rates for the years ended June 30, 2018 and 2017 were 13.41% and 11.41%, respectively. The incidental death benefit employer contribution rate for the years ended June 30, 2018 and 2017 was 0.15%. The District's required contribution for the years ended June 30, 2018 and 2017 was \$307,158 and \$272,562, respectively. For each of the years, the District contributed 100% of the required contribution to the SCRS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018 and 2017, the District reported a liability of \$5,260,737 and \$4,432,597, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016, using membership data as of July 1, 2016, projected forward to the end of the fiscal year and financial information of the pension trust funds as of June 30, 2017, using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of the District's contributions for the year ended June 30, 2017 to the pension plan relative to the contributions of all participating employers for the year ended June 30, 2017. At June 30, 2018 and 2017, the District's proportion was 0.0234 percent and 0.0208 percent, respectively.

For the year ended June 30, 2018, the District recognized pension expense of \$514,614. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 15 - Deferred compensation plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 23,452	\$ 2,916
Net difference between projected and actual earnings on pension plan investments	146,855	-
Changes in proportion and differences between proportionate share of contributions	381,907	279,926
Assumption changes	307,960	-
District contributions subsequent to the measurement date	<u>307,158</u>	<u>-</u>
Total	<u>\$ 1,167,332</u>	<u>\$ 282,842</u>

For the year ended June 30, 2017, the District recognized pension expense of \$251,759. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 45,949	\$ 4,814
Net difference between projected and actual earnings on pension plan investments	372,924	-
Changes in proportion and differences between proportionate share of contributions	-	422,816
Assumption changes	-	-
District contributions subsequent to the measurement date	<u>272,562</u>	<u>-</u>
Total	<u>\$ 691,435</u>	<u>\$ 427,630</u>

The \$307,158 and \$272,562 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date as of June 30, 2018 and 2017, respectively, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019 and 2018, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 15 - Deferred compensation plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Year ended June 30,	Deferred Outflows (Inflows) of Resources
2019	\$ 125,252
2020	\$ 223,623
2021	\$ 260,026
2022	\$ (31,569)
2023	\$ -
Thereafter	\$ -

Actuarial Assumptions. Actuarial assumptions involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Actuarial assumptions and methods used during the annual valuation process are subject to periodic revision, typically with an experience study, as actual results over an extended period of time are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued as of July 1, 2015. As a result of the experience study, The Retirement System Funding and Administration Act of 2017 was signed into law April 25, 2017, and included a provision to reduce the assumed rate of return from 7.50% to 7.25% effective July 1, 2017. As a result of this legislation, SCRS' consulting actuary made an adjustment to the calculation of the roll-forward total pension liability for this assumption change as of the measurement date of June 30, 2017.

The total pension liability as of June 30, 2017 was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actual cost method	Early age normal
Salary Increases	3.0% to 12.5% (varies by service), including inflation
Investment rate of return	7.25 percent, including inflation
Inflation	2.25%
Benefit adjustments	lesser of 1% or \$500 annually

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumptions, the 2016 Public Retirees of South Carolina Mortality table (2016 PRSC), was developed using the Systems' mortality experience. These base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2016.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 15 - Deferred compensation plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Assumptions used in the determination of the June 30, 2017, total pension liability are as follows:

Former Job Class	Males	Females
Educators	2016 PRSC Males multiplied by 92%	2016 PRSC Females multiplied by 98%
General Employees and Members of the General Assembly	2016 PRSC Males multiplied by 100%	2016 PRSC Females multiplied by 111%
Public Safety and Firefighters	2016 PRSC Males multiplied by 125%	2016 PRSC Females multiplied by 111%

The long-term expected rate of return on pension plan investments, is based upon the 30 year capital market assumptions. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2017 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table on the following page. For actuarial purposes, the 7.25 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 5.00 percent real rate of return and a 2.25 percent inflation component.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018 AND 2017

Note 15 - Deferred compensation plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Global Equity	45.0%		
Global Public Equity	31.0%	6.72%	2.08%
Private Equity	9.0%	9.60%	0.86%
Equity Options Strategies	5.0%	5.91%	0.30%
Real Assets	8.0%		
Real Estate (Private)	5.0%	4.32%	0.22%
Real Estate (REITs)	2.0%	6.33%	0.13%
Infrastructure	1.0%	6.26%	0.06%
Opportunistic	17.0%		
GTAA/Risk Parity	10.0%	4.16%	0.42%
Hedge Funds (non-PA)	4.0%	3.82	0.15%
Other Opportunistic Strategies	3.0%	4.16%	0.12%
Diversified Credit	18.0%		
Mixed Credit	6.0%	3.92%	0.24%
Emerging Markets Debt	5.0%	5.01%	0.25%
Private Debt	7.0%	4.37%	0.31%
Conservative Fixed income	12.0%		
Core Fixed Income	10.0%	1.60%	0.15%
Cash and Short Duration (Net)	2.0%	0.92%	0.02%
Total Expected Return	100.0%		5.31%
Inflation for Actuarial Purposes			2.25%
Total Expected Nominal Return			7.56%

Discount Rate. The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina Code of Laws. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018 AND 2017

Note 15 - Deferred compensation plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25 percent) or 1-percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25)%	Current Discount Rate (7.25)%	1% Increase (8.25)%
District's proportionate share of the net pension liability	\$ 6,780,368	\$ 5,260,737	\$ 4,338,679

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued PEBA financial report.

Note 16 - Other commitments and contingencies

The District is subject to various claims and contingencies arising out of the normal course of business. Management of the District believes that the ultimate liability, if any, from such claims or contingencies will be covered by the District's insurance policies and are not likely to have a material adverse effect on the District's operating results, financial condition or liquidity. Currently there are no material outstanding issues being addressed by legal counsel.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 17 - Net position

Net position represents the difference between assets, deferred inflows of resources, liabilities and deferred outflows of liabilities. The net position amounts were as follows:

	As of June 30,	
	2018	2017
Net investment in capital assets		
Net property, plant and equipment in service	77,756,658	74,738,599
Less: Debt as disclosed in Notes 6 & 7	(42,384,465)	(45,084,379)
Bond premium, net	(63,492)	(72,133)
Deferred amount on refunding, net	1,237,445	1,493,873
Accounts payable for capital assets	(522,682)	(444,536)
	36,023,464	30,631,424
Restricted for debt service	2,425,274	2,406,220
Unrestricted	3,503,133	4,117,237
Total net position	\$ 41,951,871	\$ 37,154,881

Required Supplementary Information

Schedule A - Hilton Head No. 1 PSD South Carolina Retirement System Contributions

Schedule B - Hilton Head No. 1 PSD's Proportionate Share of the Net Pension Liability

**Schedule A - Hilton Head No. 1 PSD South Carolina Retirement System Contributions
For the fiscal year ended June 30, 2018¹¹ - Last ten years**

	South Carolina Retirement System									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 307,158	\$ 272,562	\$ 222,257	\$ 239,148	\$ 230,376	\$ 222,013	\$ 185,953	\$ 171,769	\$ 168,516	\$ 162,220
Contributions in relation to the contractually required contribution	307,158	272,562	222,257	239,148	230,376	222,013	185,953	171,769	168,516	162,220
Contribution deficiency (excess)	0	0	0	0	0	0	0	0	0	0
Hilton Head No. 1 PSD's covered payroll	\$ 2,290,514	\$ 2,388,802	\$ 2,037,186	\$ 2,224,629	\$ 2,204,558	\$ 2,124,527	\$ 1,981,382	\$ 1,858,973	\$ 1,823,765	\$ 1,755,623
Contributions as a percentage of covered payroll	13.41%	11.41%	10.91%	10.75%	10.45%	10.45%	9.39%	9.24%	9.24%	9.24%

Note: For last 10 fiscal years, there should be a zero amount for contribution deficiency (excess) because all required contributions were made per South Carolina Retirement System's previous reports.

**Schedule B - Hilton Head No. 1 PSD's Proportionate Share of the Net Pension Liability
For the fiscal year ended June 30, 2018 - Last ten years***

	South Carolina Retirement System				
	2018	2017	2016	2015	2014
Measurement date	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013
Hilton Head No. 1 PSD's proportion of the net pension liability	0.023369%	0.020752%	0.023400%	0.023939%	0.023939%
Hilton Head No. 1 PSD's proportionate share of the net pension liability	\$ 5,260,737	\$ 4,432,597	\$ 4,437,923	\$ 4,121,502	\$ 4,063,319
Hilton Head No. 1 PSD's covered payroll	\$ 2,388,802	\$ 2,037,186	\$ 2,224,629	\$ 2,204,558	\$ 2,124,527
Hilton Head No. 1 PSD's proportionate share of the net pension liability as a percentage of its covered payroll during the measurement period	220.22491%	217.58429%	199.49048%	186.95367%	191.25758%
Plan fiduciary net position as a percentage of the total pension liability	53.30000%	52.90000%	57.00000%	59.90000%	53.38821%

Source - South Carolina Retirement System
**Fiscal year 2015 was the 1st year of implementation. Measurement dates are provided from the South Carolina Retirement System.*
Going forward this schedule will continue to add years until 10 fiscal years of information is presented.

¹¹ GASB 68 was implemented for fiscal year 2015 and 2014.

SUPPLEMENTAL FINANCIAL INFORMATION

Table A-1
Hilton Head PSD
Budgetary Comparison Schedule
Fiscal Year to Date as of June 30, 2018

	Fiscal Year 2018		FY 18 Actual to FY 18 Budget Comparison	
	Actual	Budget	Dollars	%
Operating Revenues				
Water Service	\$ 6,586,002	\$ 6,156,100	\$ 429,902	7.0%
Sewer Service	5,226,965	5,202,500	24,465	0.5%
Tap In Fees - Water	213,517	116,100	97,417	83.9%
Connection Fees - Sewer	229,355	157,800	71,555	45.3%
Service Fees	34,059	35,000	(941)	-2.7%
Golf Course Irrigation	175,015	242,000	(66,985)	-27.7%
Availability Fees	491,474	515,000	(23,526)	-4.6%
Disaster recovery, net	115,466	-	115,466	0.0%
Other Operating Revenues	53,566	16,900	36,666	217.0%
Total Operating Revenues	13,125,419	12,441,400	684,019	5.5%
Departmental Expenses				
Payroll & Related	3,951,862	3,717,000	(234,862)	-6.3%
Administrative Expenses	964,121	889,200	(74,921)	-8.4%
Operations	1,797,278	1,673,000	(124,278)	-7.4%
Maintenance	1,355,604	1,154,200	(201,404)	-17.4%
Water Tap In Expenses	216,109	135,000	(81,109)	-60.1%
Sewer Connection Expenses	221,696	151,600	(70,096)	-46.2%
Purchased Water	1,116,669	667,200	(449,469)	-67.4%
ASR-1 Water	226,919	209,200	(17,719)	-8.5%
ASR-1 O&M	43,217	45,300	2,083	4.6%
RO Plant O&M	714,136	705,700	(8,436)	-1.2%
Professional Fees	146,084	210,000	63,916	30.4%
Vehicle	108,149	91,400	(16,749)	-18.3%
Total Departmental Expenses	10,861,845	9,648,800	(1,213,045)	-12.6%
Depreciation	4,733,613	4,565,000	(168,613)	-3.7%
Total Operating Expenses	15,595,458	14,213,800	(1,381,658)	-9.7%
Operating income (loss)	(2,470,039)	(1,772,400)	(697,639)	-39.4%
Non-operating revenues				
Property taxes-G.O. Debt Levy	1,441,325	1,421,000	20,325	1.4%
Property taxes-Operations Levy	984,296	971,500	12,796	1.3%
Tower lease	462,986	454,400	8,586	1.9%
Rental Income	79,068	80,600	(1,532)	-1.9%
Interest earned	108,346	101,000	7,346	7.3%
Gain (Loss) of disposal of equipment	95,716	-	95,716	0.0%
Total Non-operating Revenues	3,171,736	3,028,500	143,236	4.7%
Non-operating Expenses				
Interest expense-Bonds	1,030,789	1,013,560	(17,229)	-1.7%
Bond Defeasance Amortization	256,428	256,400	(28)	0.0%
Bond Issuance Costs	69,609	65,000.00	(4,609)	-7.1%
Total Non-operating Expenses	1,356,827	1,334,960	(21,867)	-1.6%
Total Non-operating Revenues/Exp.	1,814,909	1,693,540	121,369	7.2%
Increase (decrease) in net position, before capital contributions	(655,130)	(78,860)	(576,270)	-730.8%
Water Capacity Fee	142,200	110,000	32,200	29.3%
Sewer Capacity Fee	423,472	254,800	168,672	66.2%
Developer Contributions of Systems	4,476,201	-	4,476,201	0.0%
Assessments	410,246	-	410,246	0.0%
Total Capital Contributions	5,452,119	364,800	5,087,319	1394.6%
Change in net position	\$ 4,796,990	\$ 285,940	\$ 4,511,050	1577.6%
Net position, beginning of the fiscal year	\$ 37,154,881			
Net position, June 30, 2018	\$ 41,951,871			

Notes to Budgetary Comparison Schedule

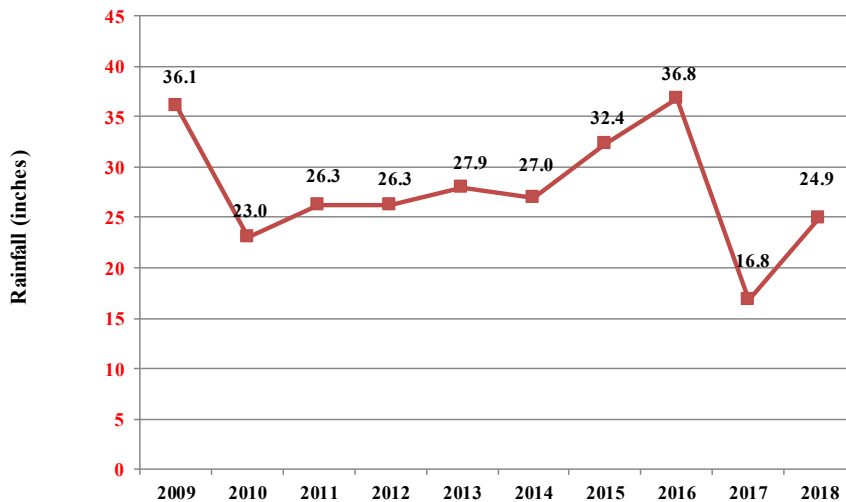
Budgetary Highlights

Operating Revenues: Actual of \$13,125,419 vs. FY'18 Budget of \$12,441,400 represents a variance of \$684,019 or 5.5% above budget.

The following is a summary of material variances for the Operating Revenue categories:¹²

- Water service revenues are above budget by \$429,902 or 7.0% due to high customer consumption caused by low rainfall and warmer weather. Below is a graph of spring/summer rainfall amounts for the last 10 fiscal years.¹³

Fiscal Year Spring/Summer Rainfall



- Sewer service revenues are above budget by \$24,465 or 0.5% due to high water consumption.¹⁴
- Water tap in fees are \$97,417 or 84% above budget mainly due to new construction and Water Fund approved water connections.¹⁵
- Sewer connection fees are \$71,555 or 45% above budget. There have been a large number of low pressure and gravity sewer connections related to new construction and Master Sewer Plan connections.

¹² In most cases, a variance of more than \$50,000 or 10 percent constitutes a material variance for the District's quarterly and annual reports.

¹³ Rainfall measurements were recorded at the wastewater treatment plant. Spring/summer months included for each fiscal year are July through August and March through June.

¹⁴ A residential sewer service customer's billed consumption is capped at 10,000 gallons per month. Therefore sewer service revenues are not as significantly impacted by higher water consumption when compared to water service revenues.

¹⁵ Water tap in expenses and sewer connection expenses are offset by water tap in fees and sewer connection fees.

- Despite low rainfall for fiscal year 2018, golf course irrigation (recycled water) revenues are \$66,985 or 28% below budget. For fiscal year 2018 certain golf course personnel have been making a conscious effort to only irrigate when absolutely necessary.
- The Disaster recovery, net line item includes reimbursements that the District received from FEMA and the SCEMD for damages associated with Hurricane Matthew and Tropical Storm Irma.
- Other operating revenues are \$36,666 or 217% above budget mainly due to Palmetto Electric capital credit payments that were received in December 2017.

Total Departmental Expenses (excludes depreciation): Total departmental expenses are \$1,213,045 or 12.6% over budget. The following is a summary of material variances for the Departmental Expenses categories:¹

- Payroll and Related Expense: Actual of \$3,951,862 vs. FY'18 Budget of \$3,717,000 is \$234,862 or 6.3% above budget. This is mainly due to GASB Pension Expense in the amount of \$514,614 posted at fiscal year-end versa the actual amount of contributions of \$307,158, a net difference of \$207,456.
- Administration Expenses: Actual of \$964,121 vs. FY'18 Budget of \$889,200 is \$74,921 or 8.4% above budget. This is mainly due to higher than expected bank/bond administration fees associated with the implementation of the new credit card point and pay system. Also, the District had higher than expected computer supplies expense associated with software licensing fees such as the advanced metering infrastructure software and higher than expected other supplies and materials expense.
- Operations Expenses: Actual of \$1,797,278 vs. FY'18 Budget of \$1,673,000 is \$124,278 or 7.4% above budget. This is mainly due to higher chemical and power costs associated with the aforementioned higher water consumption. Bio solids disposal expense was also slightly above budget.
- Maintenance Expenses: Actual of \$1,355,604 vs. FY'18 Budget of \$1,154,200 is \$201,404 or 17.4% above budget. This is due to higher plant maintenance expense associated with the rental expenses of the temporary centrifuge. Also, operation grounds and water/sewer system maintenance were above budget.
- Water Tap in Expenses: Actual of 216,109 vs. FY 2018 Budget of \$135,000 are \$81,109 or 60% above budget mainly due to new construction and Water Fund approved water connections.¹⁶ Water tap in expenses are offset by water tap in fee revenue.
- Sewer Connection Expenses: Actual of \$221,696 vs. FY 2018 Budget of \$151,600 are above budget by \$70,096 or 46% mainly due to new construction and Master Sewer Plan approved connections. Sewer connection expenses are more than offset by sewer connection fee revenue.
- Purchased Water Expense: Actual of \$1,116,669 vs. FY'18 Budget of \$667,200 is \$449,469 or 67% above budget. This is due to higher than expected water consumption.

¹⁶ Water tap in expenses and sewer connection expenses are offset by water tap in fees and sewer connection fees.

Total Non-Operating Revenues: Actual of \$3,171,736 vs. FY'18 Budget of \$3,028,500 represents a variance of \$143,236 or 4.7% above budget. This is mainly due to the insurance reimbursement check related to the centrifuge and funds received for a boom truck that was sold.

Total Non-Operating Expenses: Actual of \$1,356,827 vs. FY'18 Budget of \$1,334,960 represents a variance of \$21,867 or 1.6% above budget mainly due to higher than expected bond interest expense associated with new bond issuances.

Capital Contributions: Actual Capacity Fees of \$565,672 vs. FY'18 Budget of \$364,800 represents a variance of \$200,872 or 55% above budget. Developer Contributions of Systems are a non-budgeted item totaling \$4,476,201 which related to reimbursements for Master Sewer Plan Town funded projects. Assessments are also a non-budgeted items related to the issuance of the Series 2017A front foot assessment debt in the amount of \$410,246.

Fiscal year 2018's change in net position was an increase of \$4,796,990 vs. FY'18 Budget increase of \$285,940 which represents a variance of \$4,511,050 above budget which is mainly related to developer contributions of systems and collection of capacity fees.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
SUMMARY SCHEDULE OF DEBT
 JUNE 30, 2018

<u>Description</u>	<u>Rate</u>	<u>6/30/2016</u>	<u>Addition</u>	<u>Reduction</u>	<u>6/30/2017</u>	<u>Addition</u>	<u>Reduction</u>	<u>6/30/2018</u>	<u>Current</u>
<u>Revenue Bonds</u>									
Series 2010B	2% to 4%	805,000	-	(150,000)	655,000	-	(155,000)	500,000	160,000
Series 2012 A	0.542% to 2.839%	8,275,000	-	(1,020,000)	7,255,000	-	(1,035,000)	6,220,000	1,050,000
Series 2012 B	2.15%	815,000	-	-	815,000	-	-	815,000	-
Series 2014A	3.42%	252,358	-	(15,741)	236,617	-	(16,278)	220,339	16,835
Series 2015A	1.93%	19,083,000	-	(1,847,000)	17,236,000	-	(1,885,000)	15,351,000	1,923,000
Series 2015B	2.29%	2,658,000	-	(85,000)	2,573,000	-	(85,000)	2,488,000	88,000
Series 2017A	0.00%	--	-	-	-	515,000	(31,157)	483,843	28,918
Total Revenue Bonds	-	<u>31,888,358</u>	-	<u>(3,117,741)</u>	<u>28,770,617</u>	<u>515,000</u>	<u>(3,207,435)</u>	<u>26,078,182</u>	<u>3,266,753</u>
<u>Notes Payable - Revenue/Other</u>									
SCJEDA - Notes Payable	0.00%	115,939	-	(18,000)	97,939	-	(18,000)	79,939	18,000
SIRF Series 2014 Revenue Bonds	1.00%	2,888,397	-	(132,962)	2,755,435	-	(134,295)	2,621,140	135,643
SIRF Series 2017B Revenue Bonds	1.90%	--	-	-	-	1,176,988	(28,895)	1,148,093	51,630
Total Notes Payable - Revenue/Other	-	<u>3,004,336</u>	-	<u>(150,962)</u>	<u>2,853,374</u>	<u>1,176,988</u>	<u>(181,190)</u>	<u>3,849,172</u>	<u>205,273</u>
Total Revenue /Other Debt		<u>34,892,694</u>			<u>31,623,991</u>			<u>29,927,354</u>	
<u>General Obligation Bonds:</u>									
Series 2007	4.00% to 4.50%	4,900,000	-	(365,000)	4,535,000	-	(380,000)	4,155,000	390,000
Series 2009	4.219%	1,067,829	-	(114,988)	952,840	-	(119,839)	833,001	124,895
Series 2010	2.00% to 3.375%	2,920,000	-	(185,000)	2,735,000	-	(190,000)	2,545,000	195,000
Total General Obligation Bonds	-	<u>8,887,829</u>	-	<u>(664,988)</u>	<u>8,222,840</u>	-	<u>(689,839)</u>	<u>7,533,001</u>	<u>709,895</u>
<u>Notes Payable - GO Debt:</u>									
SRF - Series 2007 GO Bonds	3.94%	1,937,500	-	(138,975)	1,798,525	-	(142,128)	1,656,397	145,354
SIRF Series 2007 GO Bonds	3.50%	333,047	-	(22,180)	310,867	-	(22,967)	287,900	23,781
SRF - Series 2014 GO Bonds	- 2.00%	3,258,187	-	(130,031)	3,128,156	-	(148,343)	2,979,813	151,332
Total Notes Payable - GO Debt	-	<u>5,528,734</u>	-	<u>(291,186)</u>	<u>5,237,548</u>	-	<u>(313,438)</u>	<u>4,924,110</u>	<u>320,467</u>
Total GO Debt		<u>14,416,563</u>			<u>13,460,388</u>			<u>12,457,111</u>	
Total Long-Term Debt Liability		49,309,257	-	(4,224,877)	45,084,379	1,691,988	(4,391,902)	42,384,465	4,502,388
Less current portion		<u>(4,224,875)</u>			<u>(4,331,849)</u>			<u>(4,502,388)</u>	
Bond discount/premium, net of amortization		80,774			72,133			63,492	
Total Long Term Debt		<u>\$45,165,156</u>			<u>\$40,824,663</u>			<u>\$37,945,569</u>	

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
 SCHEDULE OF BOND PRINCIPAL AND INTEREST PAYMENTS
 June 30, 2018

For the Year end in June 30,	\$3,400,000 Revenue Bond Dated August 24, 2010		\$12,275,000 Revenue Bond 2012 A Dated November 29, 2012		\$815,000 Revenue Bond 2012 B Dated November 29, 2012		\$282,294 Revenue Bond 2014 A Dated April 23, 2014		\$19,846,000 Revenue Bond 2015 A Dated September 3, 2015		\$2,721,000 Revenue Bond 2015 B Dated September 3, 2015		\$515,000 Revenue Bond 2017 A Dated August 21, 2017	
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2019	16,800	160,000	140,067	1,050,000	17,523	-	7,536	16,835	287,010	1,923,000	56,471	88,000	13,015	28,917
2020	10,300	165,000	121,011	1,075,000	17,523	-	6,960	17,411	249,713	1,958,000	54,445	90,000	12,237	29,694
2021	3,500	175,000	97,726	1,110,000	17,523	-	6,364	18,007	211,769	1,992,000	52,372	92,000	11,439	30,494
2022	-	-	84,602	10,000	17,523	-	5,749	18,622	167,688	3,156,000	49,246	272,000	10,618	31,314
2023	-	-	82,757	120,000	17,523	-	5,112	19,259	106,970	3,119,000	42,960	280,000	9,776	32,157
2024	-	-	79,279	125,000	17,523	-	4,453	19,918	46,484	3,177,000	36,514	285,000	8,911	33,022
2025	-	-	38,752	2,730,000	8,761	815,000	3,772	20,599	376	26,000	31,213	72,000	8,023	33,910
2026	-	-	-	-	-	-	3,067	21,304	-	-	28,270	299,000	7,111	34,822
2027	-	-	-	-	-	-	2,339	22,032	-	-	21,537	277,000	6,174	35,759
2028	-	-	-	-	-	-	1,585	22,786	-	-	15,412	238,000	5,212	36,721
2029	-	-	-	-	-	-	806	23,566	-	-	9,939	244,000	4,224	37,709
2030	-	-	-	-	-	-	-	-	-	-	2,874	251,000	3,210	38,723
2031	-	-	-	-	-	-	-	-	-	-	-	-	2,168	39,765
2032	-	-	-	-	-	-	-	-	-	-	-	-	1,098	40,834
	\$ 30,600	\$ 500,000	\$ 644,194	\$ 6,220,000	\$ 113,899	\$ 815,000	\$ 47,743	\$ 220,339	\$ 1,070,010	\$ 15,351,000	\$ 401,253	\$ 2,488,000	\$ 103,216	\$ 483,841
Current	\$ 160,000						\$ 16,835			\$ 1,923,000		\$ 88,000		\$ 28,917
Noncurrent	\$ 340,000						\$ 203,504			\$ 13,428,000		\$ 2,400,000		\$ 454,924

For the Year end in June 30,	\$7,350,000 GO Bond Dated October 3, 2007		\$1,781,694 Series 2009 GO Bond Dated July 30, 2009		\$3,970,000 GO Bond Dated September 25, 2010	
	Interest	Principal	Interest	Principal	Interest	Principal
2019	166,200	390,000	35,144	124,896	78,688	195,000
2020	150,600	405,000	29,875	130,165	72,837	200,000
2021	134,400	420,000	24,383	135,656	66,838	205,000
2022	116,800	440,000	18,660	141,380	60,687	210,000
2023	100,000	460,000	12,695	147,345	54,388	220,000
2024	81,600	480,000	6,479	153,561	47,787	230,000
2025	62,400	500,000	-	-	40,888	240,000
2026	42,400	520,000	-	-	33,687	245,000
2027	21,600	540,000	-	-	26,031	255,000
2028	-	-	-	-	18,062	265,000
2029	-	-	-	-	9,450	280,000
2030	-	-	-	-	-	-
2031	-	-	-	-	-	-
2032	-	-	-	-	-	-
	\$ 876,000	\$ 4,155,000	\$ 127,236	\$ 833,003	\$ 509,343	\$ 2,545,000
Current	\$ 390,000		\$ 124,896		\$ 195,000	
Noncurrent	\$ 3,765,000		\$ 708,107		\$ 2,350,000	

BOND TOTALS

Total	Total	
	Interest	Principal
\$ 818,454	\$ 3,976,648	\$ 4,795,103
\$ 725,501	\$ 4,070,270	\$ 4,795,772
\$ 626,314	\$ 4,178,157	\$ 4,804,471
\$ 531,573	\$ 4,279,316	\$ 4,810,890
\$ 432,181	\$ 4,397,761	\$ 4,829,942
\$ 329,030	\$ 4,503,501	\$ 4,832,531
\$ 194,185	\$ 4,437,509	\$ 4,631,694
\$ 114,535	\$ 1,120,126	\$ 1,234,661
\$ 77,681	\$ 1,129,791	\$ 1,207,472
\$ 40,271	\$ 562,507	\$ 602,778
\$ 24,419	\$ 585,275	\$ 609,694
\$ 6,084	\$ 289,723	\$ 295,807
\$ 2,168	\$ 39,765	\$ 41,933
\$ 1,098	\$ 40,834	\$ 41,933
\$ 3,923,494	\$ 33,611,183	\$ 37,534,678
	Plus: Net Premium/Discount	63,492
	Less: Current	\$ 3,976,648
		\$ 29,698,027

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
SCHEDULE OF NOTE PRINCIPAL AND INTEREST PAYMENTS
JUNE 30, 2018

For the Year ending June 30,	\$530,000 SCHEDA Note		\$2,887,826 SRF GO Note		\$481,080 SRF GO Note		\$2,921,430 SRF Revenue Note		\$3,750,000 SRF GO Note		\$1,397,774 SRF Revenue Note		NOTE TOTALS		
	Dated	Principal	Dated	Principal	Dated	Principal	Dated	Principal	Dated	Principal	Dated	Principal	Total	Total	
2019	-	18,000	36,048	145,353	9,767	23,781	25,704	135,643	58,466	151,332	22,510	51,631	152,495	525,740	678,235
2020	-	18,000	32,750	148,652	8,923	24,625	24,342	137,005	55,417	154,382	22,534	54,968	143,966	537,632	681,598
2021	-	18,000	29,377	152,025	8,050	25,498	22,967	138,380	52,306	157,493	21,482	56,021	134,182	547,417	681,598
2022	-	18,000	25,928	155,474	7,146	26,402	21,578	139,769	49,132	160,666	20,410	57,093	124,194	557,404	681,598
2023	-	7,939	22,500	158,902	6,210	27,339	20,175	141,172	45,895	163,904	19,317	58,185	114,097	557,441	671,538
2024	-	-	18,792	162,610	5,240	28,308	18,758	142,589	42,592	167,206	18,204	59,299	103,586	560,012	663,598
2025	-	-	15,102	166,300	4,236	29,312	17,327	144,020	39,223	170,576	17,069	60,434	92,957	570,642	663,598
2026	-	-	11,329	170,073	3,197	30,351	15,881	145,466	35,785	174,013	15,913	61,590	82,105	581,493	663,598
2027	-	-	7,470	173,932	2,120	31,428	14,421	146,926	32,279	177,519	14,734	62,769	71,024	592,574	663,598
2028	-	-	3,523	177,879	1,006	32,542	12,946	148,401	28,702	181,096	13,533	63,970	59,710	603,888	663,598
2029	-	-	254	45,197	73	8,314	11,457	149,890	25,053	184,746	12,309	65,194	49,146	453,341	502,487
2030	-	-	-	-	-	-	9,952	151,395	21,330	188,468	11,062	66,441	42,344	406,304	448,648
2031	-	-	-	-	-	-	8,433	152,914	17,532	192,266	9,790	67,713	35,755	412,893	448,648
2032	-	-	-	-	-	-	6,898	154,449	13,658	196,140	8,494	69,009	29,050	419,598	448,648
2033	-	-	-	-	-	-	5,347	156,000	9,706	200,093	7,174	70,329	22,227	426,422	448,648
2034	-	-	-	-	-	-	3,782	157,566	5,674	204,125	5,828	71,675	15,284	433,366	448,650
2035	-	-	-	-	-	-	2,200	159,147	1,560	155,788	4,456	73,046	8,216	387,981	396,197
2036	-	-	-	-	-	-	603	120,408	-	-	3,059	74,444	3,662	194,852	198,514
2037	-	-	-	-	-	-	-	-	-	-	1,634	75,869	1,634	75,869	77,503
2038	-	-	-	-	-	-	-	-	2	3	74	8,477	374	38,477	8,751
	\$	\$ 79,939	\$ 203,073	\$ 1,656,397	\$ 55,968	\$ 287,900	\$ 242,771	\$ 2,621,140	\$ 534,310	\$ 2,979,813	\$ 249,786	\$ 1,258,157	\$ 1,285,908	\$ 8,883,346	\$ 10,169,254
Current	\$	18,000		145,353		23,781		135,643		151,332		51,631		525,740	
Noncurrent	\$	61,939		1,511,044		264,119		2,485,497		2,828,481		1,206,526		8,357,606	
												(110,064)		(110,064)	
												1,096,462		8,247,542	

Final Draw Received in FY 2019

STATISTICAL SECTION

Statistical Section

The purpose of the statistical section is to provide additional information useful in assessing a government's financial condition. The statistical section provides information on financial trends, revenue capacity, debt capacity, operating information as well as demographic and economic information.

Contents	Pages
Financial Trends <i>These schedules contain trend information to help the reader understand how the District's financial performance and position have changed over time</i>	86-90
Capital Assets <i>These schedules contain infrastructure data which shows how the District's financial reports relate to its activities</i>	91
Demographic and Economic Information <i>These schedules offer demographic and economic indicators showing the environment in which the District operates</i>	92-98
Debt Capacity <i>These schedules present information to help the reader assess the affordability of the District's current level of outstanding debt and the District's ability to issue additional debt in the future</i>	99-102
Other Operational Information <i>These schedules contain operational and service information to convey how the District's financial reports relate to its services</i>	103-105

Statements of Revenues, Expenses, and Debt Service per Bond Covenants¹⁷

Last Ten Fiscal Years

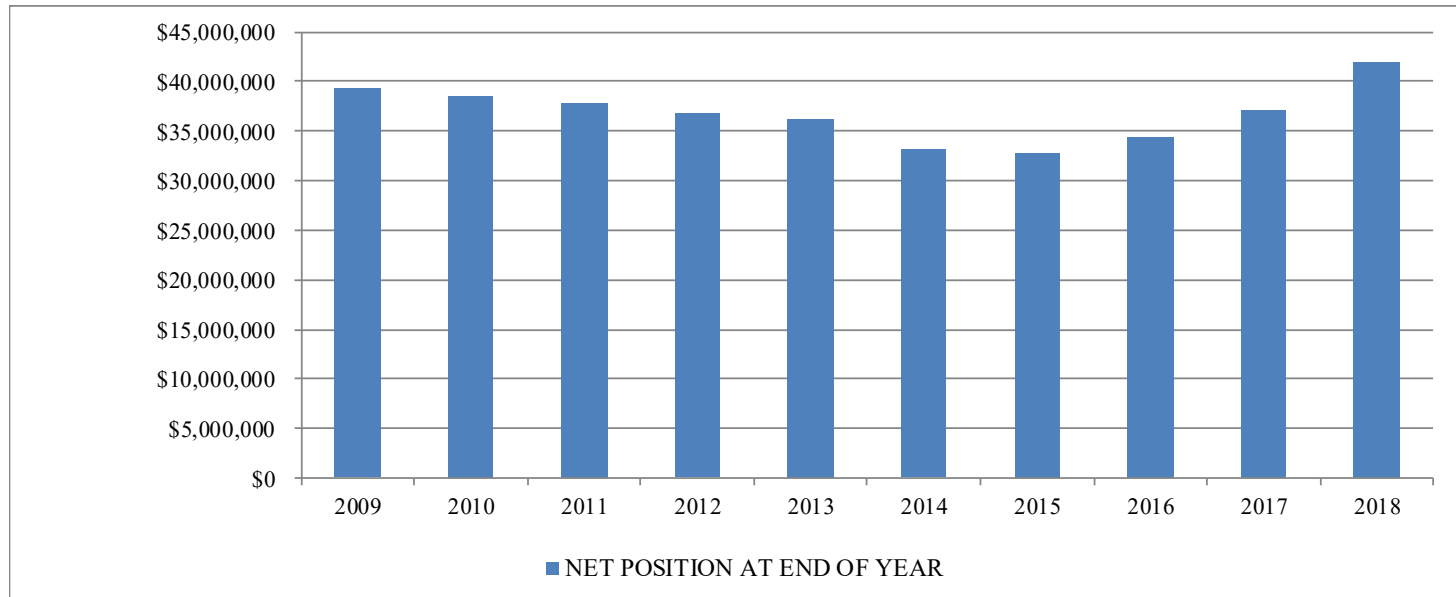
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Operating Revenues										
Water Service	\$5,307,260	\$5,308,798	\$5,836,921	\$5,949,379	\$5,951,546	\$5,777,606	\$5,727,692	\$6,009,410	\$6,680,175	\$6,586,002
Sewer Service	3,959,087	4,034,068	4,208,115	4,522,434	4,623,093	4,736,919	4,838,019	5,056,081	5,143,168	5,226,965
Water Tap In Fees	35,133	31,305	43,041	41,861	61,925	124,837	106,202	96,427	137,423	213,517
Sewer Connection Fees	2,330	117,367	71,614	83,425	109,475	117,505	84,543	109,984	219,483	229,355
Availability Fees	547,354	570,169	610,332	638,137	623,076	597,582	565,423	525,302	506,930	491,474
Service Fees	50,311	70,488	73,245	51,108	36,645	44,174	42,646	39,113	29,105	34,059
Golf Course Irrigation	243,274	230,583	358,105	338,205	319,041	297,609	204,934	164,344	284,937	175,015
Disaster Recovery, net	-	-	-	-	-	-	-	-	58,691	115,466
Other Operating Revenues	19,154	35,679	80,342	15,539	14,727	17,771	21,264	284,775	28,676	53,566
Total Operating Revenues	\$10,163,903	\$10,398,457	\$11,281,715	\$11,640,088	\$11,739,528	\$11,714,003	\$11,590,723	\$12,285,436	\$13,088,588	\$13,125,419
Operating Expenses										
Payroll and Related Expenses	\$3,227,906	\$3,229,296	\$3,293,800	\$3,392,515	\$3,474,067	\$3,571,288	\$3,713,013	\$3,294,097	\$3,689,699	\$3,951,862
Administrative Expenses	697,194	692,053	792,437	923,287	783,768	789,686	793,893	756,507	871,478	964,121
Operations Expenses	1,430,222	1,410,295	1,639,353	1,761,310	1,686,667	1,667,542	1,571,114	1,563,548	1,798,365	1,797,278
Maintenance Expenses	677,372	768,575	1,012,322	987,389	1,038,224	1,125,413	1,006,240	1,247,020	1,059,412	1,355,604
Water Tap In Expenses	26,620	23,030	26,691	37,443	38,250	60,078	90,462	115,995	191,120	216,109
Sewer Connection Expenses	3,900	128,227	64,775	78,775	84,144	85,401	82,353	150,570	174,722	221,696
Purchased Water	1,356,803	746,571	1,024,455	1,028,789	817,441	622,629	791,096	543,661	1,017,482	1,116,669
ASR-1 Water	-	-	-	16,792	133,760	194,537	196,311	202,890	221,515	226,919
ASR-1 O&M	-	-	-	5,275	30,868	40,747	40,656	44,562	42,042	43,217
RO Plant O&M	127,852	674,039	581,270	604,539	607,876	533,249	618,024	723,049	691,148	714,136
Professional Fees	410,736	269,207	171,575	243,600	265,786	237,182	305,698	229,387	99,701	146,084
Vehicle Expenses	131,379	107,292	119,162	130,473	126,999	126,384	117,787	84,215	87,680	108,149
Depreciation	3,965,632	4,405,077	4,456,160	4,459,807	4,557,446	4,481,885	4,485,346	4,482,776	4,576,123	4,733,613
Total Operating Expenses	\$12,055,616	\$12,453,662	\$13,181,999	\$13,669,995	\$13,645,296	\$13,536,021	\$13,811,992	\$13,438,277	\$14,520,488	\$15,595,458
Operating Income (Loss)	(1,891,713)	(2,055,205)	(1,900,284)	(2,029,907)	(1,905,768)	(1,822,017)	(2,221,269)	(1,152,841)	(1,431,899)	(2,470,039)
Non-Operating Revenues (Expenses)										
Property Taxes-Debt Service	\$817,751	\$967,418	\$1,235,347	\$1,233,107	\$1,195,990	\$1,167,016	\$1,391,881	\$1,396,680	\$1,403,497	\$1,441,325
Property Taxes-Operations Levy	924,702	1,028,416	1,039,316	1,023,502	1,016,558	\$901,453	\$913,930	\$931,507	\$973,607	\$984,296
Interest Income	269,950	256,948	234,668	205,100	168,990	142,313	132,549	92,713	99,041	\$108,346
Tower Leases	471,303	448,673	465,355	423,468	506,687	531,703	508,185	471,540	531,964	\$462,986
Rental Income	84,496	82,150	81,493	80,235	79,641	80,096	80,579	78,552	79,115	\$79,068
Bond Issuance Costs	-	-	-	(31,250)	(226,335)	(38,685)	(67,329)	(119,950)	-	(69,609)
Amortization of Bond Costs	(206,685)	(202,112)	(209,256)	(239,272)	(216,004)	(223,222)	(223,222)	(243,693)	256,428	(256,428)
Gain (Loss) on Disposal	2,000	161	7,672	-	-	-	-	1,500	3,500	95,716
Interest Expense	(1,911,438)	(2,208,372)	(2,300,439)	(2,101,677)	(1,842,617)	(1,661,902)	(1,613,384)	(1,230,078)	(1,403,497)	(1,030,789)
Total Non-Operating Income (Loss)	\$452,079	\$373,282	\$554,156	\$593,213	\$682,909	\$898,773	\$1,123,190	\$1,378,771	\$1,742,486	\$1,814,909
Net Income (loss) before Capital per Financial Statements	(\$1,439,634)	(\$1,681,923)	(\$1,346,128)	(\$1,436,695)	(\$1,222,859)	(\$923,245)	(\$1,098,079)	\$225,930	\$310,587	(\$655,130)
Capacity Fees	109,037	242,308	309,857	394,546	79,240	477,179	631,652	585,744	565,093	565,672
Add: Depreciation	3,965,632	4,405,077	4,456,160	4,459,807	4,557,446	4,481,885	4,485,346	4,482,776	4,576,123	4,733,613
Net Pension Expense	-	-	-	-	-	-	288,870	298,810	251,759	514,614
SCRS Retirement Contributions	-	-	-	-	-	-	(241,688)	(222,257)	(272,562)	(307,158)
Amortization	206,685	202,112	209,256	239,272	169,938	223,222	223,222	243,693	256,428	256,428
Bond Issuance Costs	-	-	-	31,250	226,335	38,685	67,329	119,950	-	69,609
Interest Expense (Bonds)	1,911,438	2,208,372	2,300,439	2,101,677	1,842,617	1,661,902	1,613,384	1,230,078	(1,403,497)	1,030,789
Assessments - Debt Service	508,381	537,759	550,586	396,027	415,758	382,702	486,300	452,658	157,973	190,300
Less: Property Taxes - Debt Service	(817,751)	(967,418)	(1,235,347)	(1,233,107)	(1,195,990)	(1,167,016)	(1,391,881)	(1,396,680)	(1,403,497)	(1,441,325)
Net Earnings Available for Debt Service	\$4,443,788	\$4,946,286	\$5,244,823	\$4,952,778	\$4,872,485	\$5,175,313	\$5,064,454	\$6,020,702	\$5,533,715	\$4,957,414
Debt Service on Revenue Bonds	\$3,438,347	\$3,523,871	\$3,477,484	\$3,660,650	\$4,037,286	\$3,504,185	\$3,987,537	\$3,441,323	\$3,923,462	\$4,008,312
Required per Bond Covenants	120%	120%	120%	120%	120%	120%	120%	120%	120%	120%
Coverage of Debt Service by Net	129%	140%	151%	135%	121%	148%	127%	175%	141%	124%
Debt Coverage without Capacity Fees	126%	133%	142%	125%	119%	134%	111%	158%	127%	110%

¹⁷ Please note that fiscal years 2018, 2017, 2016, 2015 and 2014 reflect the implementation of GASB 68. 2012 and onward reflect implementation of GASB 63 and GASB 65.

Schedule of Change in Net Position¹⁸

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Operating Income (Loss from operations)	(\$1,891,713)	(\$2,055,205)	(\$1,900,284)	(\$2,029,907)	(\$1,905,768)	(\$1,822,017)	(\$2,221,269)	(\$1,152,841)	(\$1,431,899)	(\$2,470,039)
Total Non-Operating Income (Loss)	\$452,079	\$373,282	\$554,156	\$593,213	\$682,909	\$898,773	\$1,123,190	\$1,378,771	\$1,742,486	\$1,814,909
Capital Contributions and Assessments	<u>\$201,573</u>	<u>\$979,621</u>	<u>\$696,652</u>	<u>\$1,348,696</u>	<u>\$553,337</u>	<u>\$1,905,385</u>	<u>\$894,531</u>	<u>\$1,404,843</u>	<u>\$2,334,412</u>	<u>\$5,452,119</u>
Changes in net position	(\$1,238,061)	(\$702,302)	(\$649,476)	(\$87,999)	(\$669,522)	\$982,140	(\$203,548)	\$1,630,772	\$2,644,999	\$4,796,990
Effect of prior period adjustments on net position										
Cumulative adjustment - adoption of GASB Statement No. 68						(\$4,063,319)				
Cumulative adjustment - adoption of GASB Statement No. 65				(\$992,288)						
Net position at beginning of year, as previously reported				<u>\$37,913,644</u>						
Net position at beginning of year as previously reported	<u>\$40,503,483</u>	<u>\$39,265,422</u>	<u>\$38,563,120</u>	<u>\$36,921,356</u>	<u>\$36,833,358</u>	<u>\$36,163,836</u>	<u>\$33,082,657</u>	<u>\$32,879,109</u>	<u>\$34,509,881</u>	<u>\$37,154,881</u>
Net position at end of year	<u>\$39,265,422</u>	<u>\$38,563,120</u>	<u>\$37,913,644</u>	<u>\$36,833,357</u>	<u>\$36,163,836</u>	<u>\$33,082,657</u>	<u>\$32,879,109</u>	<u>\$34,509,881</u>	<u>\$37,154,881</u>	<u>\$41,951,871</u>

Net Position at End of Year



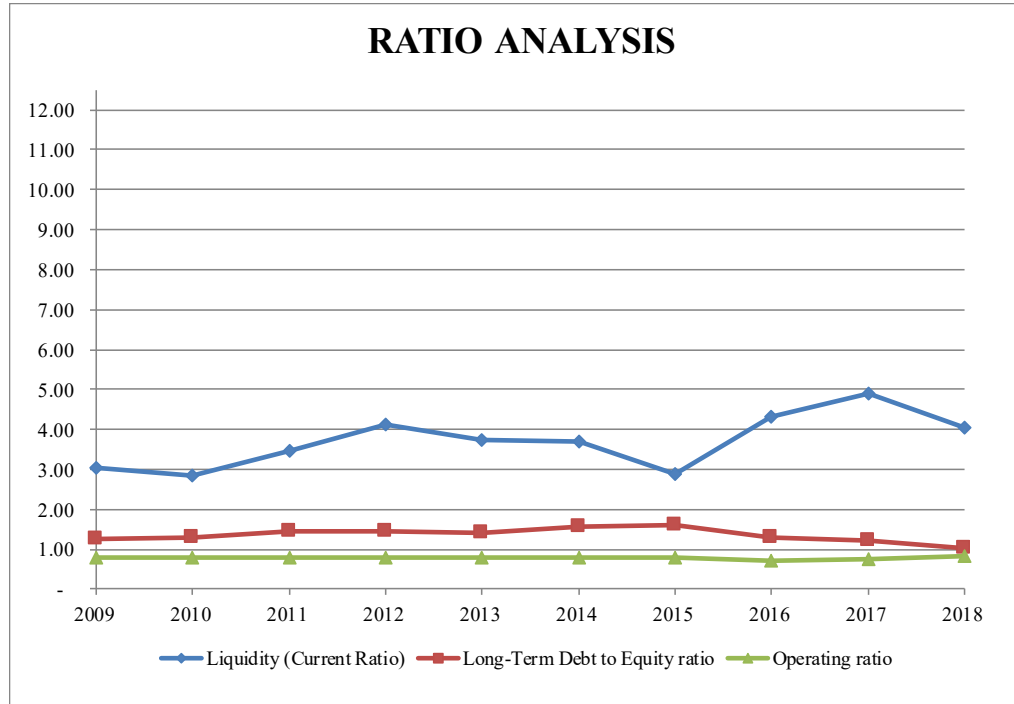
¹⁸ Please note that fiscal years 2018, 2017, 2016, 2015 and 2014 reflect the implementation of GASB 68. 2012 and onward reflect implementation of GASB 63 and GASB 65.

Net Position by Component¹⁹

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Net position										
Net investment in capital assets	\$30,467,552	\$29,464,863	\$27,806,556	\$26,621,121	\$27,016,214	\$27,495,374	\$27,588,236	\$28,981,560	\$30,631,424	\$36,023,464
Restricted for debt service	2,446,988	2,378,848	2,779,466	3,419,743	2,885,019	3,377,968	3,426,103	2,482,528	2,406,220	2,425,274
Unrestricted	6,350,882	6,719,409	7,327,622	6,792,494	6,262,603	2,209,315	1,864,770	3,045,794	4,117,237	3,503,133
Net position	<u>\$39,265,422</u>	<u>\$38,563,120</u>	<u>\$37,913,644</u>	<u>\$36,833,358</u>	<u>\$36,163,836</u>	<u>\$33,082,657</u>	<u>\$32,879,109</u>	<u>\$34,509,882</u>	<u>\$37,154,881</u>	<u>\$41,951,871</u>

Ratio Analysis

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Liquidity (Current Ratio)	3.04	2.86	3.46	4.12	3.72	3.69	2.88	4.30	4.89	4.05
Long-Term Debt to Equity ratio	1.26	1.27	1.43	1.43	1.39	1.55	1.59	1.31	1.22	1.03
Operating ratio	0.80	0.77	0.77	0.79	0.77	0.77	0.80	0.73	0.76	0.83



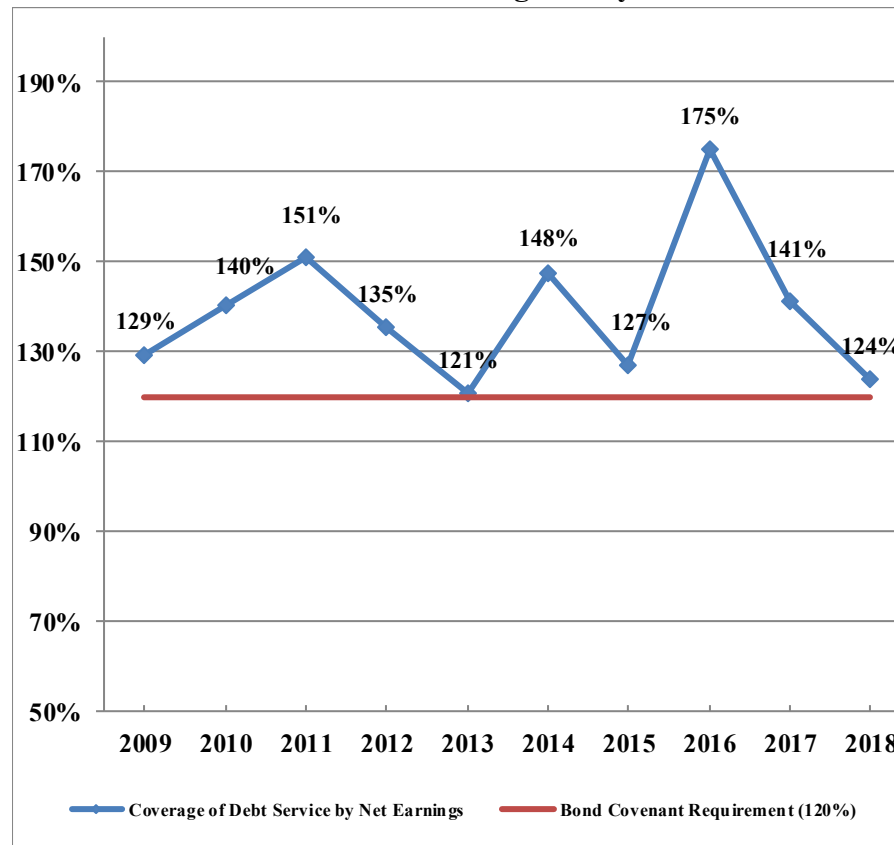
¹⁹ Please note that fiscal years 2018, 2017, 2016, 2015 and 2014 reflect the implementation of GASB 68. 2012 and onward reflect implementation of GASB 63 and GASB 65.

Total Outstanding Debt by Debt Type

Fiscal Year	GO Bonds	Revenue Bonds	SRF Revenue Loans*	SRF GO Loans	Notes Payable	Total Outstanding Debt	Bond Premiums / discounts	Total Outstanding Debt Net of Amortization	Average Debt Per Customer
2018	7,533,001	26,078,181	3,769,233	4,924,110	79,939	42,384,464	63,492	42,447,956	2,446
2017	8,222,841	28,770,617	2,755,436	5,237,548	97,939	45,084,382	72,133	45,156,515	2,487
2016	8,887,829	31,888,358	2,888,397	5,528,734	115,939	49,309,257	80,774	49,390,031	2,748
2015	9,528,162	34,677,573	2,563,810	5,015,406	133,939	51,918,891	44,988	51,963,879	2,905
2014	10,144,028	37,704,831	-	2,581,424	151,939	50,582,222	45,019	50,627,241	2,848
2013	10,740,609	39,713,937	-	2,731,331	169,939	53,355,816	45,050	53,400,866	3,034
2012	11,313,078	41,004,952	-	2,877,671	187,939	55,383,640	812,333	56,195,973	3,212
2011	11,866,601	36,906,574	6,100,698	3,018,480	205,939	58,098,292	922,848	59,021,140	3,383
2010	8,476,338	34,383,013	6,587,376	3,149,328	223,939	52,819,994	956,624	53,776,618	3,106
2009	7,085,000	35,388,165	7,057,386	3,276,237	241,939	53,048,727	1,063,321	54,112,048	3,118

Reference Note 6 on page 55 and Summary Schedule of Debt on pages 81-83 for supporting documentation. GASB 63 was implemented in fiscal year 2012 and deferred refunding are now reported as deferred outflows from refunding debt.

Debt Service Coverage Analysis²⁰



²⁰ Bond covenants require that the District maintain and collect rates and charges which together with income are reasonably expected to yield annual net earnings equal to at least the sum of one hundred twenty percent (120%) of annual principal and interest requirements for all revenue bonds outstanding.

Schedule of Changes in Capital Assets

Last Ten Fiscal Years

	June 30, 2009	Additions	Disposals	Transfers	Fiscal Year 2011 Reclassifications	June 30, 2018
Capital assets not being depreciated:						
Land	\$ 1,266,629	32,565	-	-	-	\$ 1,299,194
Construction in Progress	<u>641,980</u>	<u>48,935,897</u>	<u>(131,904)</u>	<u>(48,931,998)</u>	<u>-</u>	<u>513,974</u>
Total Capital Assets not being depreciated	1,908,609	48,968,461	(131,904)	(48,931,998)	-	1,813,168
Capital assets being depreciated:						
Waterworks system	53,778,860	39,676	(1,154,556)	9,624,621	257,862	62,546,463
Sewage disposal system	22,142,129	277,817	(388,685)	25,108,966	1,596,254	48,736,481
Buildings	4,289,335	52,726	-	11,887	(14,858)	4,339,091
Sewage treatment facilities	36,636,614	46,353	(418,503)	220	(1,927,081)	34,337,603
Transportation equipment	675,449	732,247	(348,971)	-	224,208	1,282,929
Operations furniture and equipment	1,915,135	487,000	(548,287)	419,131	(235,457)	2,037,521
Office furniture and equipment	<u>605,663</u>	<u>248,521</u>	<u>(174,702)</u>	<u>-</u>	<u>99,072</u>	<u>778,553</u>
Sub Total	120,043,184	1,884,341	(3,033,705)	35,164,825	-	154,058,641
Less Accumulated depreciation	<u>(40,512,172)</u>	<u>(51,660,688)</u>	<u>6,879,374</u>	<u>7,178,328</u>	<u>-</u>	<u>(78,115,155)</u>
Total capital assets being depreciated, net	<u>79,531,012</u>	<u>(49,776,347)</u>	<u>3,845,669</u>	<u>42,343,152</u>	<u>-</u>	<u>75,943,490</u>
Year End Totals	<u>\$ 81,439,621</u>	<u>(807,886)</u>	<u>3,713,765</u>	<u>(6,588,846)</u>	<u>-</u>	<u>\$ 77,756,658</u>

Schedule of Net Property, Plant, & Equipment (PP&E)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
PP&E	\$ 121,309,803	\$ 124,015,092	\$ 126,932,175	\$ 134,001,976	\$ 135,459,397	\$ 147,901,162	\$ 138,683,537	\$ 146,346,818	\$ 147,901,161	\$ 155,357,834
Accumulated Depreciation	<u>(40,512,192)</u>	<u>(44,736,215)</u>	<u>(49,097,940)</u>	<u>(53,557,747)</u>	<u>(57,977,115)</u>	<u>(62,192,564)</u>	<u>(65,972,348)</u>	<u>(70,288,692)</u>	<u>(74,619,859)</u>	<u>(78,115,155)</u>
Net PP&E in Service	80,797,611	79,278,877	77,834,235	80,444,229	77,482,282	85,708,598	72,711,189	76,058,127	73,281,302	77,242,680
Construction in Progress	<u>641,980</u>	<u>1,236,180</u>	<u>3,514,449</u>	<u>553,892</u>	<u>441,125</u>	<u>1,629,184</u>	<u>5,926,019</u>	<u>85,002</u>	<u>1,457,297</u>	<u>513,974</u>
Net PP&E	<u>\$ 81,439,592</u>	<u>\$ 80,515,057</u>	<u>\$ 81,348,684</u>	<u>\$ 80,998,121</u>	<u>\$ 77,923,407</u>	<u>\$ 87,337,782</u>	<u>\$ 78,637,208</u>	<u>\$ 76,843,129</u>	<u>\$ 74,738,599</u>	<u>\$ 77,756,658</u>

Customer Statistics at Fiscal Year-End²¹

Number of Water vs. Wastewater Customers at Fiscal Year-end

Year	Water	Percent Increase	Wastewater	Percent Increase	Ratio of Customers with Both Services
2009	16,355	-0.2%	14,880	0.3%	91.0%
2010	16,321	-0.2%	14,891	0.1%	91.2%
2011	16,395	0.5%	15,030	0.9%	91.7%
2012	16,441	0.3%	15,109	0.5%	91.9%
2013	16,540	0.6%	15,260	1.0%	92.3%
2014	16,705	1.0%	15,486	1.5%	92.7%
2015	16,867	1.0%	15,633	0.9%	92.7%
2016	16,899	0.2%	15,758	0.8%	93.2%
2017	17,076	1.0%	15,961	1.3%	93.5%
2018	17,345	1.6%	16,258	1.9%	93.7%

²¹ These totals do not include irrigation meters.

Billings at Fiscal Year-End (Just Water, No Irrigation Meters)

Reported in kgals (thousands of gallons)

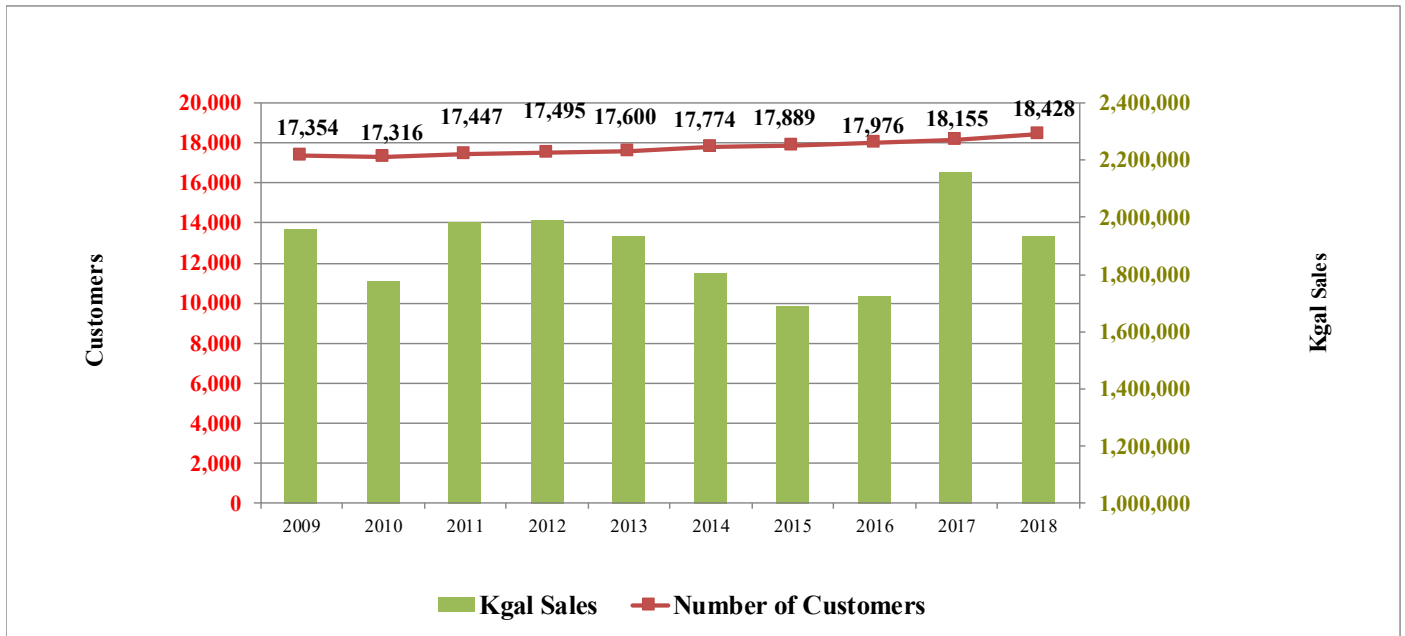
Year	Just Water Meters	Percent Increase	Wastewater	% Inc
2008	1,745,767	1.4%	1,523,113	2.2%
2009	1,629,557	-6.7%	1,432,874	-5.9%
2010	1,486,416	-8.8%	1,279,144	-10.7%
2011	1,644,020	10.6%	1,426,486	11.5%
2012	1,656,442	0.8%	1,425,564	-0.1%
2013	1,605,369	-3.1%	1,393,724	-2.2%
2014	1,537,065	-4.3%	1,320,838	-5.2%
2015	1,439,514	-6.3%	1,274,826	-3.5%
2016	1,475,858	2.5%	1,275,251	0.03%
2017	1,819,663	23.3%	1,573,203	23.4%
2018	1,640,939	-9.8%	1,402,469	-10.9%

Billings at Fiscal Year-End (Water and Irrigation Meters)

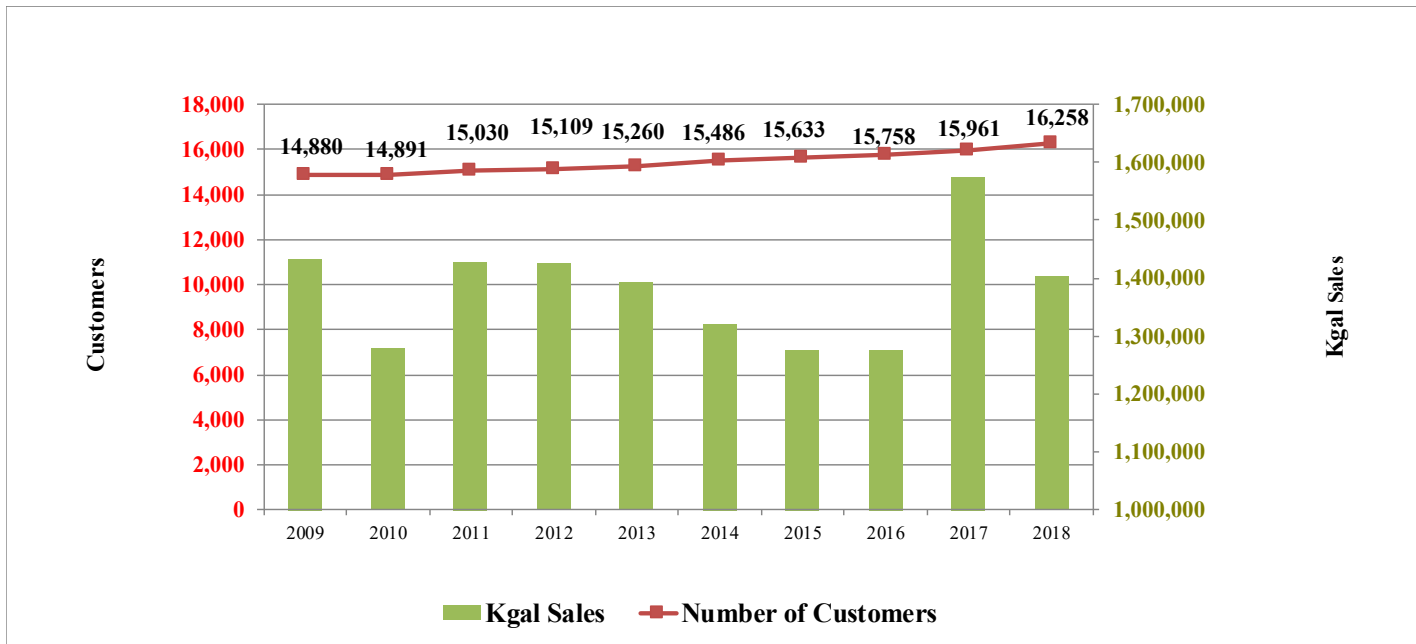
Reported in kgals (thousands of gallons)

Year	Water & Irrigation Meters	Percent Increase	Wastewater	% Inc
2008	2,119,295	1.6%	1,523,113	2.2%
2009	1,957,926	-7.6%	1,432,874	-5.9%
2010	1,773,200	-9.4%	1,279,144	-10.7%
2011	1,983,289	11.8%	1,426,486	11.5%
2012	1,986,913	0.2%	1,425,564	-0.1%
2013	1,935,918	-2.6%	1,393,724	-2.2%
2014	1,806,920	-6.7%	1,320,838	-5.2%
2015	1,692,874	-6.3%	1,274,826	-3.5%
2016	1,724,451	1.9%	1,275,251	0.03%
2017	2,159,321	25.2%	1,573,203	23.4%
2018	1,933,031	-10.5%	1,402,469	-10.9%

Water/Irrigation Customers vs. Water/Irrigation Kgal Sales



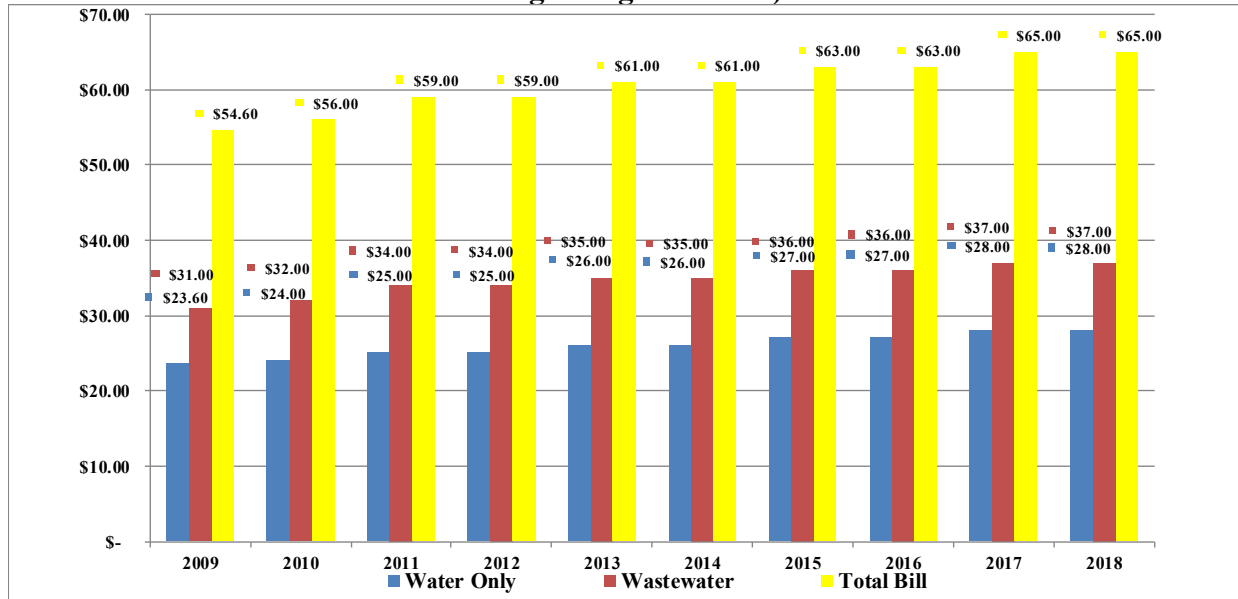
Sewer Customers vs. Wastewater Kgal Sales



Water and Wastewater Rate Comparisons

Water Rate Comparison											
Effective Date											
		FY'09 (1)	FY'10 (2)	FY'11 (3)	FY'12	FY'13 (4)	FY'14	FY'15 (5)	FY'16	FY'17 (6)	FY'18
Residential Water	Base Charge	\$ 10.00	\$ 10.00	\$ 11.00	\$ 11.00	\$ 12.00	\$ 12.00	\$ 13.00	\$ 13.00	\$ 14.00	\$ 14.00
	First 10,000 Gallons	\$ 1.36	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40
	Next 10,001 to 20,000 gallons	\$ 1.64	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71
	Next 20,001 to 30,000 gallons	\$ 1.91	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20
	Over 30,000 gallons	\$ 2.18	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.55
Residential Irrigation	Base Charge	\$ 10.00	\$ 10.00	\$ 11.00	\$ 11.00	\$ 12.00	\$ 12.00	\$ 13.00	\$ 13.00	\$ 14.00	\$ 14.00
	First 10,000 Gallons Irrigation	\$ 1.36	\$ 1.40	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71
	Next 10,001 to 20,000 gallons	\$ 1.64	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71
	Next 20,001 to 30,000 gallons	\$ 1.91	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20
	Over 30,000 gallons	\$ 2.18	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.55
Commercial Water and Irrigation	Base Charge	\$ 15.00	\$ 15.00	\$ 16.00	\$ 16.00	\$ 17.00	\$ 17.00	\$ 18.00	\$ 18.00	\$ 19.00	\$ 19.00
	First 10,000 Gallons	\$ 1.64	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69
	Next 10,001 to 20,000 gallons	\$ 1.91	\$ 1.99	\$ 1.99	\$ 1.99	\$ 1.99	\$ 1.99	\$ 1.99	\$ 1.99	\$ 1.99	\$ 1.99
	Next 20,001 to 30,000 gallons	\$ 2.18	\$ 2.51	\$ 2.51	\$ 2.51	\$ 2.51	\$ 2.51	\$ 2.51	\$ 2.51	\$ 2.51	\$ 2.51
	Over 30,000 gallons	\$ 2.45	\$ 2.87	\$ 2.87	\$ 2.87	\$ 2.87	\$ 2.87	\$ 2.87	\$ 2.87	\$ 2.87	\$ 2.87
(1) Effective October 1, 2008 (2) Effective May 1, 2011 (3) Effective January 1, 2011 (4) Effective January 1, 2013 (5) Effective January 1, 2015 (6) Effective July 1, 2016											
Wastewater Rate Comparison											
Effective Date											
		FY'09	FY'10 (1)	FY'11 (2)	FY'12	FY'13 (3)	FY'14	FY'15 (4)	FY'16	FY'17 (5)	FY'18
Residential	Base Charge	\$ 12.00	\$ 12.00	\$ 14.00	\$ 14.00	\$ 15.00	\$ 15.00	\$ 16.00	\$ 16.00	\$ 17.00	\$ 17.00
	Per 1,000 gallons with 10 kgal Cap	\$ 1.90	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00
Commercial	Base Charge	\$ 12.00	\$ 12.00	\$ 14.00	\$ 14.00	\$ 15.00	\$ 15.00	\$ 16.00	\$ 16.00	\$ 17.00	\$ 17.00
	Per 1,000 gallons (No Cap)	\$ 1.50	\$ 1.60	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00
(1) Effective May 1, 2011 (2) Effective January 1, 2011 (3) Effective January 1, 2013 (4) Effective January 1, 2015 (5) Effective July 1, 2016											

Water/Wastewater Bill History (Residential Customers Using 10 Kgals/Month)



Water and Sewer Installation Fees

Water meter installation fees (existing service lines)	2009**	2010	2011	2012	2013***	2014	2015	2016	2017	2018
3/4" Meter	\$ 430	\$ 430	\$ 430	\$ 430	\$ 640	\$ 640	\$ 640	\$ 640	\$ 640	\$ 640
1" Meter	570	570	570	570	850	850	850	850	850	850
2" Meter with meter box and backflow	2,090	2,090	2,090	2,090	2,330	2,330	2,330	2,330	2,330	2,330
3" Meter with meter box and backflow (Time and Material)*	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M

Water meter installation fees (no existing service lines)	2009**	2010	2011	2012	2013***	2014	2015	2016	2017	2018
3/4" Meter	\$ 430	\$ 430	\$ 430	\$ 430	\$ 1,020	\$ 1,020	\$ 1,020	\$ 1,020	\$ 1,020	\$ 1,020
1" Meter	570	570	570	570	1,080	1,080	1,080	1,080	1,080	1,080
2" Meter with meter box and backflow	2,090	2,090	2,090	2,090	T&M	T&M	T&M	T&M	T&M	T&M
3" Meter with meter box and backflow (Time and Material)*	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M

* T&M equals Time and Materials

** Rate change 10/1/2009

*** Rate change 7/1/2013

Sewer Installation Fees for fiscal years 2007 through 2016:

A. Sewer Service Installation Fee Individual 4 Inch Lateral: \$1,200

6 feet in depth: Time and Materials

Sewer Inspection Fee:

The PSD charges a one-time Sewer Inspection Fee of \$100 to new customers at the time they connect to the sewer system. The fee covers the cost of the PSD inspecting the new connection to make sure it meets PSD requirements.

More information is available at: <http://www.hhpsd.com/fees>

Capacity Fees

The District requires developers to pay capacity fees in order to defray the cost of providing expanded service to the area to be developed per residential equivalency unit.

Water Capacity Fee per residential equivalency unit	\$2,400
Sewer Capacity Fee per residential equivalency unit	\$3,040

The District offers a one-year, interest free, payment plan for all capacity fees. The installments are placed on a customer's utility bill.

* The same water and sewer capacity fee rates have been in effect since 2005.

Population per Capita Income

Last Ten Available Years

Year	Hilton Head		Beaufort County		South Carolina	
	Population	Per Capita	Population	Per Capita	Population	Per Capita
2008	33,913	\$42,611	147,316	\$45,427	4,528,996	\$26,421
2009	34,249	41,951	150,415	46,790	4,589,872	25,180
2010	37,099	40,798	155,215	31,081	4,635,835	24,359
2011	37,585	41,846	162,233	32,116	4,673,348	24,109
2012	38,366	39,703	164,684	32,731	4,723,723	24,457
2013	38,375	40,853	168,049	32,891	4,774,839	24,407
2014	40,039	47,049	171,838	32,503	4,832,482	24,936
2015	40,512	46,091	175,852	32,290	4,896,146	25,951
2016	40,512	44,869	179,859	32,401	4,961,119	27,016
2017	40,500	47,454	186,844	33,877	5,024,369	25,521

Source: Bureau of Economic Analysis, Regional Economic Information Systems, U.S. Census Bureau

Beaufort County Top Employers 2017

Employer	Employees	Type of Business
Atlantic Personnel Inc.	*	Employment Company
Beaufort County School District	*	Educational
Beaufort Memorial Hospital	*	Health Services
County of Beaufort	*	Government
Cypress Club Inc.	*	Property
Department of Defense	*	Government
Hargray Communications	*	Telecommunications
Lowes Home Centers Inc.	*	Home Improvement
Marine Corps Community Services	*	Government
Marriott Resorts Hosp Corp		Hospitality

* South Carolina Department of Employment & Workforce would provide only the top twenty employers.

Beaufort County Labor Force and Employment

Category	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Civilian Labor Force	74,104	72,535	71,661	69,435	67,239	65,919	65,469	65,336	62,884	63,741
Employment	71,113	69,081	67,748	65,493	62,946	60,939	59,777	59,684	57,398	60,361
Unemployment	2,991	3,454	3,913	3,942	4,293	4,980	5,692	5,652	5,486	3,380
Unemployment Rate	4.00%	4.80%	5.50%	5.70%	6.40%	7.60%	8.70%	8.70%	8.70%	5.30%

Source: South Carolina Department of Employment and Workforce and Federal Reserve Economic Data

Unemployment Rate Comparison

Year	County	South Carolina	United States
2017	4.0%	4.3%	4.4%
2016	4.8%	5.0%	4.9%
2015	5.5%	6.0%	5.3%
2014	5.7%	6.5%	6.2%
2013	6.4%	7.6%	7.4%
2012	7.6%	9.2%	8.1%
2011	8.7%	10.6%	8.9%
2010	8.7%	11.2%	9.6%
2009	8.7%	11.2%	9.3%
2008	5.3%	6.8%	5.8%

Source: South Carolina Department of Employment and Workforce

The District's Millage History

Debt Type	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Operations	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Debt Service	4.40	4.31	4.57	4.61	3.52	3.90	3.52	3.61	2.82	2.70
Total	7.40	7.31	7.57	7.61	6.52	6.90	6.52	6.61	5.82	5.70

Ratio of (net) General Obligation Bonded Debt²²

Fiscal Year	Tax Year	General Obligation Debt	Real Property		Motor Vehicle & Other		Total Estimated Actual Values	Ratio of (net) General bonded debt
			Assessed Value at 4% & 6%	Estimated Actual Value	Assessed Value Various Rates	Estimated Actual Value		
2018	2017	\$ 12,457,111	\$ 313,474,250	\$ 6,593,452,555	\$ 47,948,390	\$ 605,907,660	\$ 7,199,360,215	0.17%
2017	2016	13,460,389	307,474,970	6,463,601,255	41,091,500	501,946,760	6,965,548,015	0.19%
2016	2015	14,416,563	304,425,280	6,382,251,455	44,258,230	555,082,470	6,937,333,925	0.21%
2015	2014	14,543,567	300,997,070	6,304,695,756	43,355,970	532,878,920	6,837,574,676	0.21%
2014 (2)	2013 (2)	12,725,452	300,452,700	6,311,095,156	35,311,800	442,155,020	6,753,250,176	0.19%
2013	2012	13,471,940	371,197,470	8,175,132,303	29,695,798	275,031,590	8,450,163,893	0.16%
2012	2011	14,190,749	369,960,240	8,383,249,241	29,596,819	213,787,160	8,597,036,401	0.17%
2011	2010	14,885,081	380,448,420	8,049,155,174	30,435,874	169,536,890	8,218,692,064	0.18%
2010 (1)	2009 (1)	11,625,667	360,750,834	6,456,014,121	28,860,067	144,247,638	6,600,261,759	0.18%
2009	2008	10,361,238	321,010,415	5,817,101,577	25,680,833	286,269,571	6,103,371,148	17%

Source: Beaufort County Auditor and the District Official Statement Reference page 97 Assessed Values of the District
 (1) The County implemented its county-wide reassessment in fiscal year 2009.
 (2) The County implemented its county-wide reassessment in fiscal year 2014.

²² Total General Obligation debt equals GO Bonds and GO Notes Payable.

General Obligation Outstanding Debt

Fiscal Year	Tax Year	Real Property	Personal Property(1)	Total Assessed Value of the District (1)	8% Debt Limit Value	Total Outstanding GO Debt	Available Debt Limit	Percent of Debt Limit	Average Debt Per Customer
2018	2017	\$ 313,474,250	\$ 47,948,390	\$ 361,422,640	\$ 28,913,811	\$ 12,477,111	\$ 16,436,700	43%	677
2017	2016	307,474,970	41,091,500	348,566,470	27,885,318	13,460,389	14,424,929	48%	741
2016	2015	304,425,280	44,258,230	348,683,510	27,894,681	14,416,563	13,478,118	52%	802
2015	2014	300,997,070	43,355,970	344,353,040	27,548,243	14,543,567	13,004,676	53%	813
2014	2013 (3)	300,452,700	35,311,800	335,764,500	26,861,160	12,725,452	14,135,708	47%	716
2013	2012	335,101,410	36,096,060	371,197,470	29,695,798	13,471,940	16,223,857	45%	765
2012	2011	336,927,670	33,032,570	369,960,240	29,596,819	14,190,749	15,406,070	48%	811
2011	2010	337,319,400	43,129,020	380,448,420	30,435,874	14,885,081	15,550,793	49%	853
2010	2009 (2)	322,448,420	38,302,414	360,750,834	28,860,067	11,625,667	17,234,400	40%	671
2009	2008	281,804,999	39,205,416	321,010,415	25,680,833	10,361,238	15,319,596	40%	597

Source: Beaufort County Auditor

(1) Figures do not include Merchant's Inventory, motor carrier reimbursement or manufacturer's depreciation reimbursement. Presently, there is no property in multi-county industrial parks or

(2) The County implemented its county-wide reassessment in fiscal year 2009.

(3) The County implemented its county-wide reassessment in fiscal year 2013.

The above table shows the then outstanding principal, authorized debt limit, available debt limit and other information regarding the District's general obligation indebtedness from FY 2009 through FY 2018.

General Obligation Debt Limit

Section 14 of Article X of the Constitution of the State of South Carolina (the "State") provides that subsequent to November 30, 1977, the special purpose districts of the State may issue bonded indebtedness in an amount not exceeding eight percent (8%) of the assessed value of all taxable property therein. The assessed value of all taxable property located within the District for the year 2017, which is the last completed assessment thereof, exclusive of properties subject to a fee in lieu of tax, is a sum of not less than \$361,422,640 and thus the eight percent (8%) debt limit of the District is not less than \$28,913,811. The District presently has the following bonded indebtedness chargeable against this limit:

<u>Originally Issued</u>	<u>Date</u>	<u>Original Amount</u>	<u>Outstanding Balance as of June 30, 2018</u>
Series 2007	October 3, 2007	\$ 7,350,000	\$ 4,155,000
SRF - Series 2007	January 23, 2008	2,876,532	1,656,397
SIRF - Series 2007	April 14, 2008	480,480	287,900
Series 2009	July 30, 2009	1,781,694	833,001
Series 2010	August 24, 2010	3,970,000	2,545,000
SRF - Series 2014	September 10, 2014	3,750,000	2,979,813
Total Indebtedness - GO Bonds		\$ 20,208,706	\$ 12,457,111

Source for Outstanding balance. Reference Summary Schedule of Debt on page 80.

General Obligation Outstanding Debt

As of June 30, 2018, the outstanding aggregate principal amounts due on the GO Bonds was \$12,457,111 and includes: (A) \$4,155,000 in outstanding principal due on the 2007 Bonds; (B) \$1,656,397 in outstanding principal due on the SRF 2007 Bond; (C) \$287,900 in outstanding principal due on the SIRF 2007 Bond; (D) \$833,001 in outstanding principal due on the 2009 Bond; (E) \$2,545,000 in outstanding principal due on the 2010 Bond and (F) \$2,979,813 in outstanding principal due on the SRF 2014 Bond.

Overlapping Debt

Government Unit	Tax Year 2017 Debt Outstanding	Estimated Percentage Applicable^a	Estimated Share of Direct and Overlapping Debt
Debt repaid with property taxes			
Beaufort County School District	\$ 294,048,921	18%	\$ 53,063,838
Beaufort County	231,699,294	18%	41,812,274
Town of Hilton Head	169,315,264	40%	67,155,937
Subtotal, overlapping debt			162,032,048
Hilton Head No.1 PSD direct debt			12,457,111
Total direct and overlapping debt			\$ 174,489,159
<p>Sources: Assessed value data used to estimate applicable percentages provided by the Beaufort County Assessor's Office. Debt outstanding provided by each governmental unit.</p> <p>Notes: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the District. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the Hilton Head No.1 Public Service District. This process recognizes that, when considering the District's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident--and, therefore, responsible for repaying the debt--of each overlapping government.</p> <p>^aFor debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the District's boundaries dividing it by each unit's total taxable assessed value.</p>			

Assessed Values of the District

Fiscal Year	Tax Year	Real Property	Personal Property(1)	Total
2018	2017	\$ 313,474,250	\$ 47,948,390	\$ 361,422,640
2017	2016	307,474,970	41,091,500	348,566,470
2016	2015	304,425,280	44,258,230	348,683,510
2015	2014	300,997,070	43,355,970	344,353,040
2014	2013 (3)	300,452,700	35,311,800	335,764,500
2013	2012	335,101,410	36,096,060	371,197,470
2012	2011	336,927,670	33,032,570	369,960,240
2011	2010	337,319,400	43,129,020	380,448,420
2010 (2)	2009 (2)	322,448,420	38,302,414	360,750,834
2009	2008	281,804,999	39,205,416	321,010,415

Source: Beaufort County Auditor

(1) Figures do not include Merchant's Inventory, motor carrier reimbursement or manufacturer's depreciation reimbursement. Presently, there is no property in multi-county industrial parks or property otherwise subject to fee in lieu of taxes in the District.

(2) The County implemented its county-wide reassessment in fiscal year 2009.

(3) The County implemented its county-wide reassessment in fiscal year 2014.

Tax Year 2017 Market Value for the District

Classification	Assessed Value	Assessment Ratio	Market Value
1. Real Property and Mobile Homes	132,824,590	4.00%	3,333,252,000
2. Real Property and Mobile Homes	180,649,660	6.00%	3,260,200,555
3. Business Personal Property	4,972,670	10.50%	47,356,160
4. Merchant's Furniture, Fixtures and Equipment	1,284,250	10.50%	12,232,040
5. Motor Vehicles ⁽¹⁾	27,666,090	Various	397,110,550
6. Marine Equipment ⁽²⁾	2,033,750	Various	33,907,880
7. Airplanes	153,580	4.00%	2,559,830
8. Manufacturing Property	193,030	10.50%	1,838,430
9. Public Utilities	9,800,740	10.50%	93,340,390
10. Rental Property and Signs ⁽³⁾	1,844,280	Various	17,562,380

Figures do not include Merchant's Inventory, motor carrier reimbursement or manufacturer's depreciation reimbursement. There is presently no property in multi-county industrial parks or property otherwise subject to fee in lieu of taxes in the District.

Source: Beaufort County Auditor.

(1) Includes personal automobiles and commercial vehicles, which are assessed at different ratios.

(2) Includes personal watercraft and commercial fishing boats, which are assessed at different ratios.

(3) Includes residential rental property and commercial signs, which are assessed at different ratios.

Tax Collection Record for the District

Fiscal Year	Taxes Subject to Collection	Current Collections	Current % Collected	Delinquent Taxes Collected	Total Collections	Total % Collected
2017-2018	\$ 67,237,267	\$ 63,969,971	95%	\$ 842,101	\$ 64,812,072	96.4%
2016-2017	61,258,283	57,974,087	95%	1,004,279	58,978,366	96.3%
2015-2016	59,813,690	56,772,652	94.9%	998,112	57,770,764	96.6%
2014-2015	60,702,084	57,349,775	94.5%	735,673	58,085,448	95.7%
2013-2014	57,332,809	54,957,102	95.9	825,387	55,782,489	97.3%
2012-2013	55,541,177	54,613,687	98.3	114,378	54,728,065	98.5%
2011-12	55,424,959	52,849,333	95.4	163,278	53,012,611	95.6%
2010-11	59,167,642	56,320,727	95.2	161,774	56,482,501	95.5%
2009-10	57,172,896	52,623,858	92.0	491,840	53,115,698	92.9%
2008-09	56,329,331	54,777,459	97.2	869,821	55,647,279	98.8%

Source: Beaufort County Auditor and Treasurer.

Tax Year 2017 - District Largest Taxpayers

Employer	Type of Business	2017 Assessed Value	2017-18 Amounts Paid
Marriott Ownership Resort INC	Real Estate	\$ 6,273,820	\$ 1,551,301
Palmetto Electric Cooperative	Utility	4,818,820	1,082,021
SCG Hilton Head Property LLC	Real Estate	4,260,000	1,048,947
Hargray Telepone Co	Utility	3,230,770	782,363
Barnwell Family Associates LLC	Liability Company	2,060,030	507,951
Hilton Head Health System LP	Medical	1,423,550	360,143
Swope Properties LLC	Real Estate	1,169,810	298,295
Evans Hilton Head LLC	Real Estate	1,098,650	277,239
Time Warner Cable SouthEast LLC	Cable	1,100,620	266,064
Heritage Golf Port Royal	Golf	893,130	245,963

Source: Beaufort County Auditor.

District Top Ten Water/Irrigation Customers

Fiscal year ended June 30, 2018

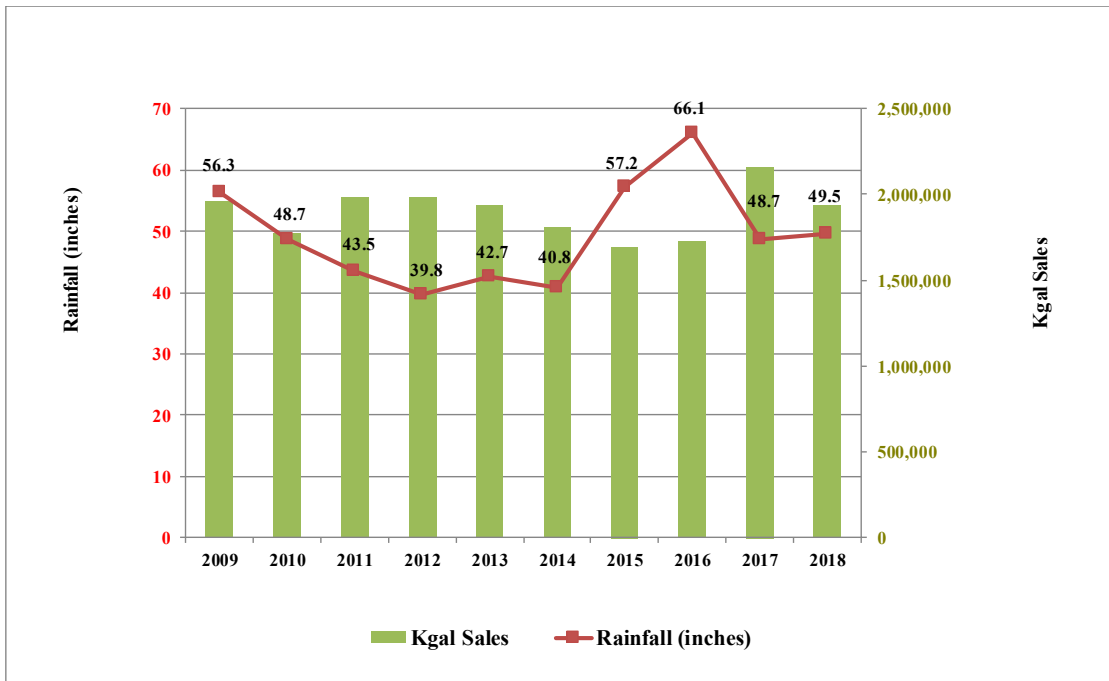
User Name	Type	2018 Billed Revenues	% of Total 2018 Billed Revenues
Hilton Head Beach & Tennis	Resort	\$ 156,702	2.38%
Cypress of Hilton Head Association	Residential Homes	104,016	1.58%
Westin Resort	Resort	96,524	1.47%
Fiddlers Cove	Resort	87,012	1.32%
Marriott Surfwatch	Resort	77,686	1.18%
Spa at Port Royal	Resort	76,105	1.16%
Marshside Owner's Association	Apartment Complex	73,079	1.11%
Hilton Head Resort/Four Seasons	Resort	68,285	1.04%
IMC	Apartment Complex	52,438	0.80%
Marriott Vacation Club	Resort	44,099	0.67%
Remaining Customers		<u>5,750,057</u>	<u>87.31%</u>
		<u>\$ 6,586,002</u>	100.00%

District Top Ten Wastewater Customers

Fiscal year ended June 30, 2018

User Name	Type	2018 Billed Revenues	% of Total 2018 Billed Revenues
Hilton Head Beach & Tennis	Resort	\$ 173,637	3.32%
Westin Resort	Resort	102,233	1.96%
Hilton Head Resort/Four Seasons	Resort	93,484	1.79%
Fiddler's Cove	Resort	92,545	1.77%
Cypress of Hilton Head Association	Residential Homes	78,659	1.50%
Spa at Port Royal	Resort	75,017	1.44%
Marriott Surfwatch	Resort	69,258	1.33%
Marriott Vacation Club	Resort	65,842	1.26%
IMC	Apartment Complex	54,854	1.05%
Marshside Owners Association	Apartment Complex	52,786	1.01%
Remaining Customers		<u>4,368,649</u>	<u>83.58%</u>
		<u>\$ 5,226,965</u>	100.00%

Rainfall (inches) vs. Water/Irrigation Kgal Sales



Beaufort-Jasper Water and Sewer Authority (BJWSA)-Purchased Water Expense Summary

Water Purchased from BJWSA Summary (Whole Dollars)												
	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY
	2009	2010 ¹	2011	2012	2013	2014	2015	2016	2017	2018	2017	2018
All District Purchases from BJWSA	\$ 1,364,990	\$ 934,368	\$ 1,199,029	\$ 1,472,568	\$ 1,183,047	\$ 984,044	\$ 1,110,409	\$ 812,457	\$ 1,555,262	\$ 1,460,476		
Reclaimed Water Adjustment ²	77,760	25,920	-	-	-	-	-	-	-	-	-	-
Broad Creek Purchases	(85,947)	(213,717)	(174,574)	(192,363)	(170,383)	(162,657)	(109,306)	(73,239)	(320,129)	(127,776)		
Capitalized Purchased Water	-	-	-	(171,887)	-	-	-	-	-	-	-	-
Prepaid Purchased Water Expense	-	-	-	(79,529)	(195,222)	(195,783)	(210,007)	(195,537)	(217,652)	(216,031)		
Purchased Water Expense	\$ 1,356,803	\$ 746,571	\$ 1,024,455	\$ 1,028,789	\$ 817,441	\$ 625,603	\$ 791,096	\$ 543,661	\$ 1,017,482	\$ 1,116,669		

Water Purchased from BJWSA Summary (KGals)												
	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2017	2018
All Kgals Purchased from BJWSA	863,918	679,724	877,933	1,240,631	1,003,131	776,286	852,633	538,925	1,125,264	1,039,001		
Reclaimed Water Adjustment	-	-	-	-	-	-	-	-	-	-	-	-
Broad Creek Purchases	(54,397)	(208,191)	(178,539)	(192,469)	(152,148)	(110,869)	(67,224)	(44,304)	(251,213)	(80,844)		
Capitalized Purchased Water	-	-	-	(217,579)	-	-	-	-	-	-	-	-
Prepaid Purchased Water Expense	-	-	-	(79,413)	(244,028)	(240,743)	(247,602)	(232,782)	(256,061)	(251,199)		
Purchased Water (KGals)	809,521	471,533	699,394	751,170	606,955	424,674	537,807	261,839	617,990	706,958		
Total Peak Purchases	863,918	511,537	648,537	623,380	487,874	457,223	437,997	391,043	643,858	590,557		
Total Off-peak Purchases	-	168,187	229,396	617,251	515,257	319,063	414,636	147,882	481,406	448,444		
Total Off-peak and Peak Purchases	863,918	679,724	877,933	1,240,631	1,003,131	776,286	852,633	538,925	1,125,264	1,039,001		

BJWSA Rates Per Kgal Summary												
	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2017	2018
Rates Charged by BJWSA												
Peak Rate	\$ 1.58	\$ 1.58	\$ 1.58	\$ 1.58	\$ 1.58	\$ 1.58	\$ 1.74	\$ 1.76	\$ 1.78	\$ 1.82		
Off Peak Rate	\$ -	\$ 0.75	\$ 0.76	\$ 0.79	\$ 0.80	\$ 0.82	\$ 0.84	\$ 0.84	\$ 0.85	\$ 0.86		
District Cost/Kgal Prior to Broad Creek Purchases ³	\$ 1.58	\$ 1.37	\$ 1.37	\$ 1.19	\$ 1.18	\$ 1.27	\$ 1.30	\$ 1.51	\$ 1.38	\$ 1.41		
Effective District Cost/Kgal After Broad Creek Purchases ⁴	\$ 1.58	\$ 1.53	\$ 1.46	\$ 1.22	\$ 1.19	\$ 1.23	\$ 1.27	\$ 1.49	\$ 1.41	\$ 1.39		

¹ Off-peak rate agreement signed September, 2009 and the rate increases every year based on CPI.

² This adjustment adds the potable water expense associated with providing reclaimed water to golf courses at a reduced rate in exchange for potable water withdrawal rights to certain wells.

³ Combined peak and off-peak purchases calculated as all District purchases from BJWSA divided by all Kgals purchased from BJWSA.

⁴ During off-peak months, the District pays the peak rate for the first 1 million gallons purchased from BJWSA and the off-peak rate for any amount purchased over one million gallons. However, the District changes the Broad Creek PSD the off-peak rate for all of the water that they purchase during off-peak months. During peak months Broad Creek PSD is charged the peak price. As such, this calculation backs out Broad Creek PSD payments to the District and the Kgals that Broad Creek purchased to arrive at the District's Effective Cost/Kgal for its own water usage.



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